FINANCIAL TIMES

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THURSDAY SEPTEMBER 24 1998

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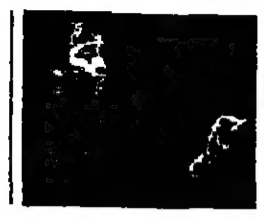

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IN MONDAY'S FT

Fed mounts hedge fund rescue

Banks urged to extend credit lines to Meriwether's struggling Long-Term Capital Management

By William Lewis, Richard Waters and Tracy Corrigan in New York

The Federal Reserve Bank of New York was yesterday mounting a rescue of one of the largest US hedge funds, amid signs that global financial contagion had begun to disrupt New York's financial markets.

It remained unclear whether the financial lifeboat would be enough to save Long-Term Capital Management, which is headed by John Meriwether, the veteran Wall Street bond trader.

Long-Term Capital disclosed earlier this month that it had lost $2bn this year during the global market turbulence. It is thought to have total investments worth far in excess of that sum.

The Fed's intervention came amid reports of growing pressures in New York credit markets during the morning. The Fed had stepped in to "facilitate" negotiations between Long-Term Capital and several US commercial banks, according to one New York banker. The Fed had not suggested using its own resources to back a bail-out.

The Fed is understood to have called a meeting of commercial banks in a bid to persuade them to extend new lines of credit to the struggling fund. The authorities are thought to have been concerned about the disruption that a forced sale of the fund's investments would have on the New York financial markets.

At the beginning of September Long-Term had capital of more than $2.3bn. However, the fund's total market position will be far more because hedge funds leverage the size of their investments through borrowings and the use of derivative instruments. Investment banks and commercial banks could have exposures to the fund of several billion dollars each.

John Meriwether is one of the best-known hedge fund managers and enjoys a glittering reputation on Wall Street. Many of Long-Term Capital's investments are thought to be in markets that have fallen heavily since Russia defaulted on its foreign debt last month, leaving the fund with the need to raise cash to stave off illiquidity.

In recent weeks Long-Term has been seeking to raise new funds from clients. But according to people close to the fund it has failed to attract sufficient funds.

Over the past few weeks Wall Street traders say the fund has been selling assets to meet margin calls from financial institutions it has borrowed from.

Yesterday the Fed and Long-Term Capital both declined to comment. However, people close to the fund said it was engaged in a "last-ditch attempt" to raise new funds and lines of credit from banks.

Long-Term Capital, based in Greenwich, Connecticut, specialises in bond arbitrage, using complex formulas in an attempt to exploit price discrepancies among different types of securities.

Mr Meriwether was formerly vice chairman of Salomon Brothers, the investment bank now joined with Smith Barney and owned by Travelers Group. He was responsible for forming Salomon's US bond arbitrage unit, recently closed down by Travelers.

A number of high profile hedge funds have in recent weeks disclosed substantial losses as a result of the turbulence in global markets. Earlier this month, Long-Term told clients it was down 44 per cent in August. Mr Meriwether wrote that "losses of this magnitude are a shock to us as they surely are to you". He also wrote that "our financing is in place", including secured and unsecured term debt and long term debt and long-dated contractual arrangements.

"These term arrangements provide time to reduce our positions, if needed, as markets become more settled. We continue to work closely with counterparts," he wrote.

Yesterday there were signs that the liquidity of the US Treasury repo market, which hedge funds use to help finance their positions, was under pressure. Banks said they were becoming increasingly reluctant to extend further credit to hedge funds.

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WORLD NEWS

UK warns over European Central Bank 'secrecy'

The European Central Bank's independence from national political pressure is at risk if it insists on keeping the votes of its council members secret, according to a member of the monetary policy committee of the Bank of England, the UK central bank. Page 11; Letters, Page 14

German election battle heats up
Helmut Kohl, German chancellor, and Gerhard Schröder, opposition Social Democratic party candidate, stepped up their battle to win the centre ground of German politics in Sunday's general election. Page 16

Moscow mayor attacks IMF
Yuri Luzhkov, Moscow's mayor and leading potential candidate for Russia's presidency, launched an attack on the previous government and blamed Russia's financial crisis on bad advice from the International Monetary Fund. Page 2

Ulster decommissioning hopes rise
The first signs of an end to the impasse over terrorist arms emerged after a proposal from ministers in the Irish republic that the Irish Republican Army should outline a timetable for decommissioning. Page 11

Romanian finance chief sacked
Romania's beleaguered reform efforts suffered a further blow with the dismissal of finance minister Daniel Daianu, the cabinet's leading technocrat. Page 2; Observer, Page 15

Italy moves to end airport dispute
Italy has developed new compromise proposals in an effort to end its dispute with the European Commission over Malpensa airport outside Milan. Page 2

US warns China over trade
The US threatened unspecified retaliatory measures if China failed to dismantle several barriers to trade and investment. Page 16; Chinese currency, Page 6

Republicans reject Clinton deal
Republican leaders rebuffed talk of a compromise deal to allow President Bill Clinton to escape impeachment over the Monica Lewinsky scandal. Page 8

Call to modernise Nato forces
The US and Britain are urging Nato allies to modernise their armed forces so the alliance can deal more rapidly with regional crises and terrorism. Page 2

Hurricane heads for Florida Keys
US officials ordered the evacuation of the Florida Keys, an archipelago off the Florida peninsula, as forecasters predicteda weekend hurricane strike. Page 9

IMF cautions India on fiscal deficit
The International Monetary Fund warned India that its high fiscal deficits threaten "heavy costs" to the country's long-term economic prospects. Page 6

S Africa boosts Lesotho force
South Africa sent a column of armoured cars across the border into Lesotho to bolster its invasion force. Page 4

BUSINESS NEWS

Bayer announces 'largest ever' drugs research alliance

Bayer, the German chemicals and drugs group, launched a $465m collaboration with Millennium Pharmaceuticals, the US gene-hunting company, in what they called the largest alliance to date in the field of drugs research. Page 17

Usinor, the French steelmaker bidding to become Europe's biggest by buying a majority stake in Belgium's Cockerill Sambre, put part of its speciality steels division up for sale. Page 20

Intel, the world's largest semiconductor manufacturer, plans to build a family of microprocessors designed for use in set-top boxes, handheld computers and consumer electronics based on technology it acquired from Digital Equipment. Page 18

Bertelsmann, the world's third biggest media group, signalled it would withdraw from its digital pay-TV business in Germany if a solution was not found to consolidation in the sector. Page 20

Nokia and Ericsson shares rose sharply after the Finnish telecommunications group said it was "confident" about third-quarter profitability and its Swedish rival outlined plans for a management shakeup. Page 17

US internet shares roared ahead on news of the latest alliances between web search engines and big high-tech companies and expectations of future earnings. Page 17

Deutsche Bank, Germany's largest bank, said its management board member responsible for information technology, Michael Endres, wanted to retire from his post by the end of this year. Page 20

Philippine Airlines, Asia's oldest airline, was closed down last night after almost six decades of operation, the first airline in the region to be grounded by the effects of the Asian economic crisis. Page 16

Ikea, the world's largest furniture retailer, is planning to set up a company university to train managers and staff in its 149 stores in Europe, North America and south east Asia. Page 20

Munich Re, Europe's largest reinsurance group, said turbulence on world markets had driven down the value of total hidden reserves from DM90.7bn ($53.8bn) at the end of June to DM74bn. Page 20

Veba, the large German conglomerate which warned of a significant drop in net profits this year, wants to spin off its Stinnes distribution and logistics company and to concentrate on energy, chemicals and telecommunications. Page 20

Euro Prices
A comprehensive statistical guide to the euro currency zone, covering foreign exchange, bond and equity markets. Page 24

Wan Azizah Wan Ismail, wife of sacked Malaysian deputy premier Anwar Ibrahim, speaks to reporters yesterday after officials issued a restriction order barring her from holding rallies at her house. Report, Page 6 Reuters

Greenspan warns of effects of global crisis on US economy

Financial markets surge on expectations of interest rate cut

By Gerard Baker in Washington

The deepening global economic crisis may slow the US economy by more than enough to crush domestic inflationary pressures, Alan Greenspan, the chairman of the US Federal Reserve, said yesterday, in remarks suggesting an interest rate cut by the Fed is now a growing possibility.

Mr Greenspan said the global crisis had "infected" US financial markets, and warned that its effects on the American economy as a whole were likely to intensify.

"Deteriorating foreign economies and their spillover to domestic markets have increased the possibility that the slowdown in the growth of the American economy will be more than sufficient to hold inflation in check," he told the Senate Budget committee.

Financial markets surged on the Fed chairman's remarks, which were his clearest indication yet that the central bank has shifted its policy-making focus from fighting inflation to preventing a sharp slowdown in US growth. The Dow Jones Industrial Average, extending gains in the morning session, was up 138.76 at 8,035.96, at 2.05pm New York time, five minutes after Mr Greenspan's testimony was released. Equity markets in Latin America also reacted positively, while the US dollar weakened against other major currencies.

The Fed's policy-making open market committee's next meeting is on Tuesday, and while most financial market economists are still not expecting the central bank to cut rates then, the chances of a rate cut seemed to rise with yesterday's remarks.

Mr Greenspan said policy makers around the world needed to be "especially sensitive to the deepening signs of global distress, which can impact their own economies".

The Fed chairman gave a long list of adverse effects the crisis was having on US financial markets, including lower stock prices, interruptions in fund flows and a more cautious approach by banks to lending.

While he said there was little evidence to date of significant weakness in the economy as a whole, he noted conditions were likely to get worse.

"Disappointing profits in a number of industries and less rapid expansion of sales suggest some stretching out of capital investment plans in the months ahead. Lower equity prices and higher financing costs should damp household and business spending, and greater uncertainty and risk aversion may also lead to more cautious spending behaviour," he said.

Last month, the Fed's open market committee shifted its policy stance away from a bias towards raising rates, to a neutral position, meaning it saw the risks facing the economy as evenly balanced between inflation and recession. But Mr Greenspan's statement yesterday suggested policymakers now saw the risks as tilted more towards a sharp slowdown.

A week ago Mr Greenspan damped expectations of an international cut in interest rates when he told another congressional committee that central banks were not co-ordinating an easing of monetary policy.

Crisis set to hit exports, Page 5
Lex, Page 18
Currencies, Page 27
World stocks, Page 38

Brussels hunts for exam leak culprits

By Neil Buckley in Brussels

An embarrassed European Commission was yesterday forced to cancel the results of all 30,000 candidates in its prestigious entrance exams last week after evidence that questions were leaked in advance.

A hunt was already under way inside the European Union's executive arm for the source of the leak. Officials warned the culprit would face "severe penalties".

The multiple choice tests constituted stage one of a three-stage *concours* aimed at spotting the Brussels mandarins of tomorrow.

The Commission is still probing other complaints that chaotic supervision led to widespread cheating, with participants calling friends on their mobile phones from the toilets to find the answers to questions.

Evidence of fraud in its own recruitment process is a public relations disaster for the body responsible for the policy initiatives and day-to-day running of the whole EU. Under Commission president Jacques Santer, the Brussels-based executive has adopted the slogan "do less – but better".

Cancellation is also expensive. Staging the four-part tests in 11 languages and 38 centres across Europe cost Ecu1.2m ($810,000).

"There should be outrage across the EU from taxpayers," said one Brussels candidate. "They're going to have to redo the whole thing."

Erkki Liikanen, commissioner for personnel, said he had found "sufficient suspicions of a leak of at least one of the tests, in at least one language".

"So that we could guarantee equal treatment for all candidates, I decided to cancel the tests," he added.

Officials said the leaked papers were in Italian but any number of exam centres could have been affected. Candidates will be invited to retake the tests, possibly in a simplified format, but officials warned that organising the re-sit could take months.

Questions ranged from the total commitment appropriations in the EU's draft 1999 budget (answer: 97bn euros) to the location of the European drugs observatory (Lisbon).

About 2,000 candidates should have proceeded to an essay round, with 1,000 receiving final interviews for 475 places. Even the youngest successful candidates could anticipate starting salaries of more than $3,600 a month, plus expatriate allowances, and special tax status.

"It's disappointing," said one Brussels candidate. "I went to the toilet and I could see and hear what was going on. Lots of people were using phones."

"It was a shambles," said another. "But I'd love to sit it again. I forgot my calculator last time."

WORLD MARKETS

STOCK MARKET INDICES		
New York Lunchtime		
Dow Jones Ind Av	8024.39	(+127.19)
NASDAQ Composite	1736.09	(+38.29)
Europe and Far East		
CAC40	3423.78	(+75.60)
DAX	4990.39	(+124.24)
FTSE 100	5214.7	(+111.4)
Nikkei	closed	
US LUNCHTIME RATES		
Federal Funds	5.437%	
3-mth Treas Bills: Yld	4.76%	
Long Bond	104½	
Yield	5.179%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(same)
UK: 10 yr Gilt	116.3438	(116.338)
France: 10 yr OAT	108.71	(108.68)
Germany: 10 yr Bund	109.30	(109.23)
Japan: 10 yr JGB	closed	(114.85)
NORTH SEA OIL (Argus)		
Brent Dated	$14.695	

GOLD		
New York Comex		
	$289.5	
London		
	$292.45	(same)
EXCHANGE RATES		
Dollar		
New York		
£	Lunchtime	
DM	1.66775	
FFr	5.5625	
SFr	1.3975	
Y	136.50	
London		
£	1.6930	(1.6837)
DM	1.6673	(1.6849)
FFr	5.5551	(5.6488)
SFr	1.3564	(1.3902)
Y	136.365	(135.26)
Tokyo		closed
Sterling		
DM	2.8397	(2.8368)

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WORLD NEWS

EUROPE

Swedish PM offers new party deal

By Tim Burt in Stockholm

Göran Persson, the Swedish prime minister, yesterday outlined the terms of a new parliamentary alliance between his Social Democrats, the former communist Left party and the Greens following Sunday's general election.

Mr Persson, who saw support for the SDP fall to a 70-year low of 36.6 per cent in the election, said he was willing to work with the Left and Greens on five broad areas and signalled that the alliance should last for the full four-year parliament.

"I do not want a shaky or unsteady government," he added. "We will start with the autumn budget to see if it can work."

Speaking after meetings with leaders of the Left and Green parties, Mr Persson said the parliamentary co-operation would focus on the economy, employment, the environment, welfare benefits and equal opportunities.

He made no mention of joining the European economic and monetary union, an issue on which both the Left and Greens are demanding a referendum and calling on Swedes to reject any idea of the country adopting the single currency. The SDP is anxious to delay such a poll.

If consummated, the three-party agreement would ensure a parliamentary majority for a Social Democrat-led government, but would not constitute a formal coalition.

It would also end the hopes of Sweden's four non-socialist parties, led by the Moderates, of forming a centre-right coalition to oust the SDP.

In spite of the SDP's overtures to the Left and Greens, Erik Asbrink, the finance minister, yesterday effectively ruled out any relaxation of public spending constraints to meet the demands of the Left, which wants to create 100,000 new public sector jobs and increase subsidies to local authorities.

"There is very limited room within our expenditure ceilings to make any changes to spending plans; there will be no major shift in economic policy," he said.

Senior finance ministry officials will be finalising measures for the October 13 budget in the next few days. The budget is expected to underline the SDP's commitment to achieving a 2 per cent budget surplus and reducing Sweden's public sector debt.

Even if the Left oppose the budget, Mr Asbrink predicted it would win parliamentary approval following the introduction this year of new budget rules, under which the SDP agreed with the non-socialist parties to set defined expenditure ceilings for the next three years.

NORTH ATLANTIC TREATY ORGANISATION ALLIES TO DISCUSS PLANS TO DEAL WITH REGIONAL CRISES AND TERRORISM MORE RAPIDLY

US, Britain urge Nato forces to modernise

By Alexander Nicoll in Vilamoura, Portugal

The US and Britain are urging Nato allies to modernise their armed forces so the alliance can deal more rapidly with regional crises and international terrorism.

An early blueprint for a revamp of Nato military force structures will be discussed today by defence ministers meeting in Vilamoura, Portugal, where the agenda will be topped by a review of options for military intervention in Kosovo.

Nato members have until now been unable to agree on how to stop the violence in the Serbian province. But the conflict is nevertheless seen as the type of crisis to which Nato troops should be ready to move quickly, whether to provide humanitarian assistance, peacekeeping, or more direct force such as air strikes.

Nato is also examining how it can act as an alliance against terrorism and weapons of mass destruction.

Javier Solana, secretary-general, hopes Nato takes clear steps in these areas so that it is seen to be a credible, relevant military organisation when its leaders meet in Washington next year for the alliance's 50th anniversary summit.

Nato is working on a new "strategic concept" to form the foundation for its activities, replacing a 1990 version which, although drafted as the Soviet bloc collapsed, still primarily reflected cold war needs.

US and British officials believe a model for modernisation has been provided by the recently completed UK strategic defence review.

The British review laid stress on mobility and flexibility, with plans for two new aircraft carriers. It devoted more resources to rapid reaction forces, transport aircraft and ships, and it created new joint-service forces and a joint logistics organisation.

Nato's prolonged peacekeeping presence in Bosnia has revealed problems in some countries' ability to sustain their commitments and to operate alongside others, with communications and command structures giving particular difficulties.

The discussions could raise difficult issues for Germany and other countries where spending on new military capabilities would be controversial. Since Nato's military structure is of little value if members cannot agree on its use, the question of what constitutes a sufficient mandate for action – highlighted by the Kosovo crisis – will be central to the formulation of a new strategic concept.

The US believes a United Nations resolution is not required for Nato to intervene in a crisis, but this view is strongly opposed by some European countries.

PRESIDENTIAL HOPEFUL LUZHKOV CONDEMNS PRIVATISATION

Moscow mayor blames IMF advice for Russia's woes

By John Thornhill in Moscow

Yuri Luzhkov, Moscow's mayor and leading potential candidate for Russia's presidency, yesterday launched a stinging attack on the previous government and blamed Russia's financial crisis on bad advice from the International Monetary Fund.

In a clear attempt to draw support from the leftist opposition, Mr Luzhkov said privatisation had "robbed the state" and transferred property ownership into the hands of those who could not manage it effectively. He described the recent collapse of the government debt market as a "swindle".

The mistaken monetarist policies of the previous government had produced bad economic results and the hollowing out of Russian industry.

"Following the recommendations of the IMF, we have given up our own production and begun to turn into the raw material appendage of the civilised world," he said.

Mr Luzhkov is fond of making tub-thumping speeches on nationalist issues – such as the need to reclaim Crimea from Ukraine – to position himself as a patriotic strongman. Some of Mr Luzhkov's supporters already appear to be seeking his endorsement by the Communist-dominated opposition before the next presidential elections, scheduled for June 2000.

But in talks with Rudolph Edlinger, Austria's finance minister, Mr Luzhkov presented his more moderate face as the friend of foreign investors and appealed for additional international assistance.

Yuri Luzhkov: blamed the IMF and said privatisation had 'robbed the state' Popperfoto/Reuters

"Europe should not leave Russia without help," he said, promising that any such assistance would not be "spent in vain like previous loans".

Western finance officials, who have been in Moscow to discuss ways of softening the impact of Russia's economic crash, have indicated they are likely to provide help only via the IMF. The Fund had lent Russia $18.8bn by the end of July and is in talks with the government concerning its future economic strategy.

Economists suggest the IMF is highly unlikely to extend further loans to Russia if the new government starts printing large amounts of money to cover its budget deficit.

Anatoly Chubais, who negotiated Russia's latest IMF loan, said any large-scale monetary emission would lead to an economic "catastrophe".

But in a briefing with foreign journalists, Mr Chubais said he saw some grounds for optimism. Property rights had now been firmly established in the country which would prevent any Communist revanche. President Boris Yeltsin had vowed to protect freedom of speech.

The middle classes, who were losing their jobs, would also become politicised by the economic crisis, he said. They would make sure the Communist-influenced government was held accountable at the ballot box if it resorted to Soviet methods of running the country and worsened the economic crisis.

Mr Chubais dismissed allegations that the central bank had misused the latest $4.8bn tranche of the IMF loan as "pure fantasy". He said $3.8bn had been used, as specified, to bolster the central bank's reserves and defend the rouble, while the remaining $1bn had been spent on legitimate budget needs. He claimed the accusations against the central bank were "politically motivated".

Siemens in fund for Nazi-era prisoners

By Graham Bowley in Frankfurt

Siemens, Germany's biggest engineering group, yesterday became the latest German company to bow to mounting public pressure when it announced it would set up a DM20m ($11m) fund to compensate former Nazi-era slave labourers.

Siemens called on the government to set up and help pay for a nationwide fund to compensate prisoners who were forced to work in German factories during the second world war.

This month, several big companies – including Daimler-Benz, Siemens and Volkswagen – have been hit by law suits from surviving prisoners now living in the US. Two of the country's biggest commercial banks, Dresdner and Deutsche, and Degussa, the industrial conglomerate, face separate law suits for their alleged roles in the Holocaust. Allianz, Germany's biggest insurance company, has signalled its willingness to compensate Jewish survivors for unpaid insurance claims from the time of the Holocaust.

Volkswagen, Europe's biggest car manufacturer, this month announced a DM20m fund to pay compensation to prisoners who worked in its factories to build weapons and vehicles for the German war effort. However, representatives of the former workers have complained that VW has not been clear how much individuals would receive. Siemens, which said it "expressed its deepest regret" and acknowledged "moral responsibility" for what happened during the second world war, said it would raise the size of its fund if more money was needed. It estimates that around 10,000-20,000 slave labourers were working in its factories at the end of the war.

Siemens' call for the German government to participate in a national compensation fund is hugely sensitive. Helmut Kohl, chancellor, has ruled out state involvement since he argues such issues should be the responsibility of companies.

But Siemens, which had earlier resisted moves for companies to set up individual funds, said slave labourers were pressed into work by government as well as in companies. Gerhard Schröder, the SPD challenger to Mr Kohl in Sunday's elections, has said the government could organise a nationwide fund but was unlikely to pay into it.

Siemens' fund would be administered by "eminent individuals and associations not associated with Siemens", the company said.

E German talks start on work hours

By Tony Barber in Frankfurt

Employers and trade unions in eastern Germany's engineering sector, whose performance is vital to the region's economic recovery, began discussions yesterday on whether to approve an understanding extending the 38-hour working week in the east until the end of 2000.

The employers' association Gesamtmetall and Germany's largest trade union, IG Metall, reached the understanding earlier this week, but individual companies and union branches have the right to raise objections until October 9. The essence of the deal is that the union will put off its demands for a 35-hour working week in eastern Germany in return for an assurance that its 280,000 members there will be entitled to the same pay deal currently under negotiation in the west.

Negotiators for Gesamtmetall have accepted this point, but secured agreement that the western pay deal will be introduced in the east with one month's delay. Engineering workers in western Germany won the right to a 35-hour week in 1995.

The understanding, reached in Berlin last Monday was a classic example of the German system, unique among the world's leading industrial countries, under which employers' groups and trade unions negotiate labour agreements that are binding for the majority of companies in a particular industrial sector.

Werner Stumpfe, the president of the employers' group, and Walter Riester, influential deputy chairman of IG Metall, have each described the agreement as a sensible compromise. However, some tensions remain beneath the surface. IG Metall leaders regard a 35-hour week in eastern Germany as a reasonable, medium-term objective. But many workers in the east, where unemployment runs at close to 20 per cent, are suspicious of deals that threaten to undermine their companies' competitiveness.

The IG Metall representative for the states of Berlin, Brandenburg and Saxony, Hasso Düvel, is a passionate advocate of the 35-hour week and he gave his assent to the understanding only because he recognised that some companies might pull out of sector-wide labour negotiations rather than accept reduced working hours.

In western Germany, IG Metall recently said it would suspend its demand for a 32-hour week until the end of 2000.

Italy plans Milan airport compromise

By Paul Betts in Milan

The Italian government has developed new compromise proposals in an effort to end its dispute with the European Commission over the opening of the expanded Malpensa airport outside Milan.

The Commission, the executive branch of the European Union, last week rejected Italy's original plan to force all flights from the existing Linate airport to transfer immediately to Malpensa when it opens on October 25, with the exception of the Milan-Rome shuttle services.

Brussels argued the move would favour Alitalia, the Italian national flag carrier, over other airlines. It would also inconvenience travellers because of the lack of adequate road and rail connections between Malpensa and Milan's city centre.

As a compromise, the Commission proposed that 40 per cent of flights must be allowed to operate from Linate until these connections were complete, against the 20 per cent favoured by Alitalia.

Roberto Formigoni, president of the Lombardy region, yesterday said Italy planned to propose that one in three flights should remain at Linate, bringing Rome's position considerably closer to that of Brussels.

If accepted, the compromise would finally resolve an issue which has developed into a serious diplomatic confrontation between Italy and the EU.

There are some conditions attached to the compromise, however, that could prove problematic. Mr Formigoni said airlines would have to apply the new Malpensa transfer proposals on a proportional basis to all their individual services.

"If Lufthansa has nine flights a day from Milan to Frankfurt, they would be able to keep three flights at Linate and transfer six to Malpensa," he said.

He conceded that this risked being opposed by the EU, which has said the airlines should be free to choose what flights they moved to Malpensa. Large European airlines such as British Airways, Lufthansa and Air France are anxious to maintain their services from their main hubs of London, Frankfurt and Paris to Linate.

Mr Formigoni said the new "Malpensa Express" rail link between the L2,200bn ($1.3bn) airport and Milan would be completed next June. At that time, airlines would have to transfer a further 16-20 per cent of their existing flights from Linate. The transfer to Malpensa was expected to be completed in spring 2000, when the highway links were due to be finished.

Romanian finance chief dismissed

By Virginia Marsh

Romania's beleaguered reform efforts suffered a further blow yesterday with the dismissal of the finance minister, the cabinet's leading technocrat. Daniel Daianu, an independent, was replaced after the Liberal party, which had nominated him for the post, said it was withdrawing its backing.

The move comes amid concern over deterioration within the economy and at the failure of the fractious, multi-party coalition to speed up stalled reforms. It also follows last week's decision by Moody's, the US credit rating agency, to cut Romania's external debt ratings.

"This is bad news for reform," said Matthew Vogel at Merrill Lynch in London. "It is hard to see how Romania is going to finance its deficits next year without a new agreement with the International Monetary Fund, and getting an agreement will be more difficult without Mr Daianu, the leading reformer."

Investment bankers in Bucharest said that while Mr Daianu's administrative abilities were questionable, the Harvard-educated economist had seemed one of the few senior government members fully aware of the seriousness of the country's economic problems in the light of the financial crises in Russia and Asia. The turmoil in emerging markets would make it even more difficult for the country to raise external financing of $4bn next year, they said.

Daniel Daianu: was the cabinet's leading technocrat

Mr Daianu, who was appointed last December, has been replaced by Decebal Traian Remes, a little known Liberal member of parliament. The party advocates lower taxes, which Mr Daianu had resisted because of Romania's burgeoning budget deficit.

Radu Vasile, prime minister, had publicly criticised Mr Daianu on several occasions for failing to improve tax collection or prepare draft laws on time.

Mr Daianu had also publicly opposed a controversial $1.5bn helicopter deal approved by the cabinet, but Mr Vasile said last month this would not be the reason for his dismissal.

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R

Prodi fails to reach agreement with Communists on budget

By James Blitz in Rome

Senior figures in the Italian government are conceding they will face a head-on clash with their far-left Marxist allies next month after both sides failed yesterday to resolve outstanding differences over the 1999 budget.

Romano Prodi, the prime minister, met with Fausto Bertinotti, the leader of Reconstructed Communism, to try to reach a last-ditch accord before finalisation of the budget at a cabinet meeting tomorrow.

Mr Bertinotti, whose party provides the government with a majority in the chamber of deputies, said after the meeting that his demands for a boost to employment and social justice "had not been accepted".

A senior government figure said: "We are now certain that Mr Bertinotti will lead part of his party out of the government majority into opposition. I am confident that enough members of his party in parliament will stay on our side, making sure the budget is passed. But I cannot deny there are going to be some very rocky days for us ahead."

'I cannot deny there are going to be some very rocky days ahead'

Mr Bertinotti, a former trade union leader who temporarily brought down Mr Prodi last year, has made it increasingly clear in recent months that he wishes to end his two-and-a-half year association with the government and move into opposition. However, another faction in his party, led by Armando Cossuta, the president, has said it wishes to back the government and the 1999 budget for fear that the collapse of the centre-left administration might open the door for the return of the centre-right, led by Silvio Berlusconi.

The focus of attention in Rome is now on a meeting of the Communists' 330-member national political council on October 3 and 4. Mr Bertinotti looks certain to get at least 175 members of the council to back a resolution to vote against the budget in a motion to be debated in parliament next month.

The question then will be how many of the Communists' 34 deputies join him in voting against the government, which has a majority in the chamber of at least 14. More than 20 Communist deputies are thought to be loyal at the moment to Mr Cossuta, making passage of the finance bill likely.

Norwegian central bank predicts slower growth

By Valeria Sköld and agencies in Oslo

Norway's central bank yesterday forecast a slowdown in economic growth, and pointed to risks of "substantially higher" inflation than in the country's trading partners.

The economy has been battered by a plunge in oil prices to 10-year lows.

The bank predicted that Norway's mainland gross domestic product would grow by 1.25 per cent next year, compared with 2.75 per cent in the bank's June forecast.

Total GDP, which includes offshore oil revenues, is estimated to grow by 2 per cent, down from the previous prediction of 4.25 per cent.

The bank expects growth of 3.5 per cent this year, down from 4 per cent predicted in June.

The bank blamed the downturn on expectations of high interest rates, which have been raised by a total of 4.5 percentage points this year in an attempt to defend the currency.

The bank temporarily suspended monetary policy controls in August, in effect letting the krone float.

The fall of the krone also led the bank to adjust its inflation forecast. The report raised forecast 1999 consumer price growth to 3.25 per cent from the 3 per cent it predicted in June, assuming the exchange rate was unchanged from current levels. It said inflation would fall to 2.75 per cent if the krone returned to its original range against European currencies.

Kjell Storvik, the central bank governor, reiterated calls for a tightening of fiscal policy to help ease pressures in the economy.

"Some of the reasons for the problems we are facing is that Norwegian economic policy, so far, has failed to take sufficient account of the risk of rising price and wage inflation," he said.

The government of Kjell Magne Bondevik, prime minister, is due to unveil its 1999 budget on October 5.

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NEWS DIGEST

BOSNIAN ELECTIONS

OSCE defends 'integrity' as results are delayed

The international body which organised Bosnia's September 12-13 general election said yesterday it would not be able to announce the results of the vote until tomorrow at the earliest due to technical problems.

The Organisation for Security and Co-operation in Europe (OSCE) said earlier it planned to release the results of Bosnia's second post-war general election today, already more than a week after preliminary results were supposed to have been issued.

An OSCE spokeswoman, Nicole Szulc, said the results were not yet ready. "The final tabulation has been slowed down by power outages and general technical problems beyond our control," she said.

Ms Szulc stressed that the problems should not call into question the "integrity of the process". She did not believe it would hurt the credibility of the OSCE.

The delays in issuing results have become a political issue, as the nationalist candidate for the presidency of the Bosnian Serb entity, Nikola Poplasen, who is thought to have won the election over the candidate favoured by the west, has accused the OSCE of preparing to "manipulate" the result.

The US Balkan envoy, Robert Gelbard, said yesterday the United States had "serious questions" about Mr Poplasen's willingness to implement the Dayton peace accord. **Reuters, Sarajevo**

TURKISH OPPOSITION

Islamist mayor jailed

Turkey's appeals court yesterday upheld a 10-month jail sentence on the popular Islamist mayor of Istanbul on public order charges.

Recep Tayyip Erdogan was sentenced by a lower court in April for "provoking hatred" by reciting a poem deemed as encouraging Islamist extremism during a public rally.

Mr Erdogan, who has run Turkey's biggest city since 1994, says the poem was taken out of context.

Turkey's top prosecutor had urged the court to uphold the sentence, part of a legal assault on the main opposition Islamists since they were forced from office last year. **Reuters, Ankara**

UKRAINIAN DEBT

Dollar shortage hits T-bills

Foreign investors who redeemed Ukrainian treasury bills maturing on Tuesday found themselves paid in Ukrainian hryvnia which they were unable to convert into dollars, as a hard currency shortage bit into the government's ability to service its debt.

The total value of the maturing securities, issued last December, was 375m hryvnia, hedged in dollars at $170m. Another identical tranche is due in December.

Two weeks ago, the Ukrainian government had offered to convert the securities into longer-term securities hedged in dollars. Last week it offered a 20 per cent cash payment up front, along with a dollar-denominated eurobond to persuade investors not to redeem the treasury bills.

The finance ministry threatened default if investors did not opt for the conversion. Nonetheless, several prominent banks declined to take the offer.

One obstacle to paying dollars to bill holders could be a condition attached to funds from the International Monetary Fund that the central bank must have gross hard currency reserves of $1.33bn at the end of September. Ukraine's reserves are reported to be very close to this level. **Charles Clover, Kiev**

FINNISH SPY CLAIMS

EU papers 'passed to Russia'

Finnish police said yesterday a foreign ministry official could face espionage charges for allegedly passing confidential European Union documents to Russian diplomats in Helsinki.

The chief prosecutor is understood to be considering treason charges against the unnamed official, who faces suspension over contacts with two Russian diplomats.

Government officials confirmed that both diplomats had left the country, one of them voluntarily and the other at the Finnish foreign ministry's request.

They refused to discuss the EU documents at the centre of the case or give any details on how long the alleged espionage took place. Finland will hold the rotating EU presidency in the second half of next year.
Tim Burt, Stockholm

SPANISH UTILITIES

Power costs to fall

Electricity costs for medium-sized Spanish companies will fall by up to 4 per cent next year following a government agreement with the domestic power groups to speed up the timetable for the deregulation of the sector.

Josep Pique, industry and energy minister, said yesterday that some 8,000 companies, representing 44 per cent of total energy consumption, would be allowed to choose their supplier next year instead of in 2004, the date agreed in a 1996 electricity protocol that liberalised the sector.

Madrid's centre-right government, which claims to be leading one of the fastest utility deregulation schedules in the euro-zone, estimates that the onset of competition will have reduced electricity costs by 10.7 per cent between 1997 and 2001 and by 18.8 per cent in real terms.

As compensation the domestic power groups have been authorised to securitise some Pta1,200bn ($8.3bn) of so-called stranded costs that will arise from the accelerated liberalisation programme. **Tom Burns, Madrid**

PUBLIC SECTOR REFORMS

Strike to hit Greek flights

Greece's civil aviation workers start a four-day strike today, which is expected to disrupt domestic and international flights. Some charter flights carrying foreign tourists to the Aegean islands are likely to be cancelled, the civil aviation union said.

The strike was called in protest against the transport ministry's plan to modernise Ypea, Greece's civil aviation authority. The unions claim the government's plan to set up separate companies to handle airport management and air traffic will result in job cuts and loss of pension rights.

A senior civil aviation official said yesterday the plan, modelled on Germany's civil aviation administration, was designed to bring Greece in line with the rest of the EU by next January. He said new legislation would include job guarantees for Ypea's 3,000 workers.

Greece's transport unions have ties with a hardline faction in the governing Panhellenic Socialist Movement opposed to public sector reform.

Transport and harbour workers staged strikes over the summer in protest against the government's effort to restructure loss-making state transport corporations.
Kerin Hope, Athens

Meciar seeks voters' backing to defy foreign isolation

Slovakia's opposition is set to cry foul in this weekend's election. **Kevin Done** and **Robert Anderson** report from Bratislava

Mikulas Dzurinda, the diminutive leader of the Slovak opposition, was pelted with vegetables on a recent campaigning bicycle tour of the villages of backwoods Slovakia. The farming communities are "HZDS-positive" in Slovak political jargon, the home territory of the fiercely nationalist HZDS (Movement for a Democratic Slovakia) and its leader Vladimir Meciar, the burly heavyweight of Slovak politics.

Much tougher tests lie ahead for Mr Dzurinda, however, if he manages to wrest power from Mr Meciar in the general election tomorrow and on Saturday. Mr Dzurinda leads a rainbow coalition of opposition parties united only by their implacable hostility towards Mr Meciar, architect of the country's "velvet divorce" from the Czech Republic at the end of 1992 and its leader for all but nine months of its first six years as an independent state.

The prime minister has been a deeply divisive figure both at home and abroad. He has achieved some of the best economic growth and inflation figures of any of the transition countries of eastern Europe. But his questionable democratic credentials have also taken the country into growing international isolation.

And there are mounting fears that the economic bubble is set to burst, with sharply rising interest rates, growing deficits in the public finances and the trade account and fears of an imminent devaluation.

The election campaign has been lacklustre, enlivened chiefly by controversy over Mr Meciar's penchant for importing western models and film stars to add some glamour, and by a murky ownership struggle at the main private commercial television station, Markiza, which has highlighted worries about the manipulation of the media, in particular of television.

State-run Slovak Television (STV) has come under heavy attack for its political bias. "There is no pretence at objectivity, they fawn over the HZDS and pour vitriol on anything that is not supportive of the government," says a western diplomat in Bratislava.

In the tense run-up to the election, serious concerns have been raised by the opposition about the danger of manipulation of the votes. The leading opposition groups are planning to conduct parallel counts, and the poll is being monitored by the Organisation for Security and Co-operation in Europe (OSCE).

The HZDS dismisses the concerns as the expected scaremongering of a desperate opposition. "If you think Mr Meciar would do something irregular, you are mistaken," declares Dusan Slobodnik, a former HZDS minister of culture and chairman of the foreign affairs committee. "We will accept the decision of the people. Everything will be democratic."

Free goulash at a Meciar rally in Bratislava yesterday Reuters

Under Mr Meciar's leadership, Slovakia has been excluded from the first wave of former communist countries – Hungary, the Czech Republic and Poland – set to join Nato next year, it has been left out of negotiations on early membership of the European Union, and it continues to be frustrated in its efforts to join the Organisation for Economic Co-operation and Development (OECD).

Slovakia is at the heart of central Europe with long borders with Poland, Hungary and the Czech Republic and with a significant ethnic Hungarian minority. An unstable, isolated Slovakia would leave a large blank at the centre of the map of an enlarged European Union and would hugely complicate the task of securing the EU's eastern border.

Mr Dzurinda, who has emerged as the leader of the Slovak Democratic Coalition, the largest grouping of opposition parties, insists that Slovakia can still catch up with its neighbours, if Mr Meciar can be defeated.

"We are ready to change the face of Slovakia, to make a fresh start," he says.

Of the 10 former communist countries that have applied for membership of the EU, Slovakia is the only one to have been excluded from the leading group for political reasons, for what US and west European diplomats describe as its "democratic deficit". The charges include the undermining of the office of the president, defying rulings of the constitutional court and misuse of the intelligence services.

But many voters in the young state resent this foreign criticism, and Mr Meciar still stands head and shoulders above his rivals as Slovakia's most charismatic politician. Opinion polls indicate that the HZDS will remain the largest party.

Mr Meciar may face an uphill struggle to stay in office, however. His existing coalition allies have lost support, and the fragmented opposition parties have put on a belated display of unity.

The next round of the fight will start on Monday, as Mr Meciar seeks to break the opposition's unity and to prise away enough of their parliamentarians to keep himself in power for another four years.

S Africa sends armour to back Lesotho invasion

By Victor Mallet in Maseru

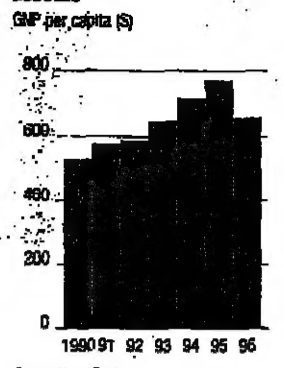
South Africa sent a column of armoured cars across the border into Lesotho to bolster its invasion force yesterday, after its attempt to prop up the Lesotho government and quell an army mutiny met further stiff resistance from rebel soldiers and angry civilians.

As it became clear that the operation launched on Tuesday was turning into a military embarrassment for South Africa as well as a political and economic disaster for the kingdom, the South African National Defence Force (SANDF) admitted resistance had been unexpectedly fierce.

"Where the peace forces started out by being circumspect in clashes, they will now shoot to kill," SANDF headquarters in Pretoria said. At least 49 people, including nine South African soldiers, have been killed in the invasion, which South Africa says was authorised by the 14-nation Southern African Development Community (SADC) to support a legitimate government.

Lesotho

GNP per capita ($)



Source: World Bank

Though the South African cabinet announced yesterday that "the situation has stabilised and relative peace has been restored", the two sides continued fighting near the airport and looters renewed their forays into wrecked shops along the main street of the capital, Maseru.

With only 600 men, South Africa did not have nearly enough troops to secure Maseru on Tuesday and the invasion sparked protests, looting and arson which have left the city centre in ruins. Even the 200 troops from Botswana arriving later were unable to do more than harass the thousands of citizens helping themselves to everything from bicycles to cornmeal.

South Africa now faces the danger of a protracted guerrilla war. Rebel Lesotho troops have fled to the hills, from where they have been attacking South African positions, while gangs of youths loosely allied to opposition parties have been setting up roadblocks and hijacking cars.

Sam Kiley, correspondent for The Times, became the third journalist to be injured in the conflict when shot in the shoulder yesterday.

Foreign business executives and diplomats were furious that the South Africans had failed to secure Maseru or provide safe passage for fleeing foreign residents. "No one can understand the dimension of the cock-up on the military side," said one ambassador.

South Africa appears to have misread the political atmosphere as badly as it miscalculated the military odds. SADC and Pretoria are now supporting a Lesotho Congress for Democracy (LCD) government never very popular in Maseru and now bitterly resented for inviting in the South African forces.

The government of Pakalitha Mosisili, the prime minister, is conspicuous by its absence, though cabinet members are trying to run what one diplomat called a "government by cellphone" from those of their homes not burned down by demonstrators.

"There's no government, frankly," said Evaristus Sekhonyane, president of the opposition Basotho National Party. "It hasn't got any power. The government is there to the extent that the South African government is there to secure certain individuals and calls them a government."

Despite police efforts, looters in Maseru, the Lesotho capital, strip shops and market stalls bare Reuters

Hopes for South African-brokered negotiations between the LCD and the opposition parties, which accuse it of rigging the May election, were running high earlier this week, but have been dashed by the invasion.

Tom Thabane, Lesotho foreign minister, said yesterday that the government's opponents should stand trial for the damage done to Maseru. The opposition is demanding a South African withdrawal before talks can begin.

Prospects for Lesotho's tiny economy and its 2m inhabitants, many of whom work in South African mines, are grim. King Letsie III, who was not consulted by his government about the South African intervention, was supposed to be in China with senior ministers this week, drumming up support for foreign investment in his country, but the trip has been cancelled.

Clothing factories employing thousands have stopped work, and the owners fear their buildings and machinery may be damaged. Asked if he was an investor in Lesotho, David Min, general manager of Sun Textiles, replied: "Unfortunately".

Mr Sekhonyane said Maseru looked as though it had been bombed. It would take time to restore confidence in the economy. "If you are not going to have industrial investment, how do you create more jobs? It makes things really bleak," he added.

Weapons experts study Iraq nerve gas data

By Laura Silber at the UN in New York and Roula Khalaf in London

International weapons experts are set to begin discussing today the results of tests designed to discover whether Iraq had loaded weapons with lethal VX nerve gas.

Unofficial results from Swiss and French analysis of Iraqi missile parts, excavated in June, are believed to have found no trace of VX, contradicting findings by a US laboratory earlier this year.

The VX controversy is a critical issue in United Nations weapons inspectors' efforts to rid Iraq of weapons of mass destruction, and has bolstered the hard line taken by the US and UK against Baghdad.

UN inspectors had said the US laboratory results had provided unambiguous evidence that Iraq had loaded missiles with VX before the 1990-91 Gulf war and that this was proof of continued Iraqi deception. Baghdad has maintained it never weaponised VX.

UN officials said yesterday they were not surprised by the apparent discrepancy in the VX results. They pointed out that the samples were taken at different times, which meant that the results could differ slightly. The Americans have samples – pieces of the missiles – whereas the French tests were taken from swabs.

The French and Swiss scientists have flown to New York with the final results of the tests, which are to be discussed in two days of

meetings with Unscom, the special commission charged with disarming Iraq.

The VX controversy comes as Kofi Annan, UN secretary general, tries to move forward with plans for a "comprehensive review" of UN sanctions imposed on Iraq since the Gulf war. The sanctions can be lifted only after Iraq is declared free of weapons of mass destruction.

The review is aimed at enticing Iraq to reverse its August decision to ban weapons inspections, and at averting escalation in the latest stand-off with the UN.

Mr Annan yesterday met Security Council ambassadors to discuss plans for the review, ahead of a planned meeting with Tariq Aziz, Iraqi deputy prime minister, in New York on Monday.

UN diplomats are sceptical that the deadlock with Iraq can be overcome. Iraq would have to allow a resumption of inspections before a comprehensive review takes place.

But Iraq has been receptive to the idea, and a presidential adviser said this week the Iraqi leadership was entirely satisfied with Mr Annan's proposals.

Farhan Bokhari adds from Islamabad: Nawaz Sharif, Pakistan's prime minister, said yesterday his country should decide on signing the comprehensive test ban treaty (CTBT) after examining the global non-proliferation instrument on its own merit rather than politicising the issue. This was an apparent reference to the country's nationalists, who are opposing suggestions that Islamabad should sign the CTBT to stem western pressure since Pakistan's nuclear tests on May 28.

Political analysts said Mr Sharif seemed to be preparing the ground for at least a conditional acceptance of the treaty, perhaps linking it to some of the Pakistan's key concerns.

In an interview with Pakistan's state-controlled TV before he was due to speak at the UN, Mr Sharif said Pakistan's security concerns, especially those over the division of Kashmir, must be addressed before Islamabad could consider adhering to the CTBT.

Tariq Aziz: planned meeting

Clinton hailed but US still in UN bad books

By Laura Silber

President Bill Clinton may have received a standing ovation at the United Nations this week but the US is still in deep trouble at the 185-member world body.

The rapturous welcome was less out of respect for the Clinton administration's policy towards the UN than out of fear of what could happen if the Republicans took power in Washington.

It was the first time in his nine visits to UN headquarters that Mr Clinton had received a standing ovation (the last leader to receive one was South African President Nelson Mandela in 1994) which administration officials attributed to his stature in the world and a desire for strong leadership in the world.

But behind the pageantry of the opening of the General Assembly, the sirens, and world leaders in their limousines, resentment at the US is running higher than ever.

And there is no senior US diplomat to smooth things over. Mr Clinton in June nominated Richard Holbrooke, a veteran diplomat, as chief representative to the UN. His confirmation has been delayed, possibly until next year.

The nomination is stalled by an inquiry by the Departments of State and Justice. This follows allegations in an anonymous letter that Mr Holbrooke violated conflict-of-interest laws in initially failing to report the use of a Washington house and making contacts for foreign clients while he was employed by Credit Suisse-First Boston and acting as a special diplomatic envoy.

Mr Holbrooke makes clear that, despite its difficulties, the outside world should not believe that Washington is not concentrating on foreign policy. "While the domestic situation is distracting, it does not impede our ability to act decisively and foreign leaders should not try to exploit the opportunity or they can be very sorry," he said yesterday.

The UN, however, is currently awash in conflicts – including a stalemate over Iraq, wars in Africa and violence in Kosovo. Except for Kosovo and the Middle East, Washington, hamstrung by its domestic crisis, appears to be looking to the UN to take the lead in trying to resolve these crises.

Member states are angry at the US failure to pay its outstanding dues of more than $1.5bn. If Congress does not approve payment, the US could lose its vote by the end of the year. Jesse Helms, chairman of the Senate foreign relations committee, says Congress has approved $819m, of which UN officials say only $600m would go to the UN itself.

The arch-conservative Mr Helms blames Mr Clinton for refusing to sign the legislation because of objections to congressional demands that US tax dollars not be used by UN groups to support family planning services that include abortion. UN officials insist these funds would not go to abortion.

'I don't believe Congress will make an issue of foreign policy if our actions are soundly based'

For his part, Mr Holbrooke, the swashbuckling architect of the Dayton peace accords for Bosnia, certainly believes the US has a coherent and robust foreign policy. "Madeleine Albright [US secretary of state] and I have talked about this. And as she said our capacity for action is undiminished," he said yesterday. "I don't believe that Congress will make an issue of foreign policy as long as we can demonstrate that our actions are soundly based," he added in what appeared to be a reference to Iraq and Kosovo.

Mr Holbrooke's predecessor, Bill Richardson – now secretary of energy – failed in his principal mission to get the US to pay its debt to the UN, despite his background as a popular congressman. Mr Holbrooke, when confirmed, may have more luck by showing Congress that bringing the UN centre-stage could help American interests.

Arafat's peace team in disarray

By Judy Dempsey in Jerusalem

The Palestinian peace negotiating team is in disarray ahead of a speech that Yassir Arafat is to make to the United Nations General Assembly aimed at gaining international support for a Palestinian state.

Mr Arafat, president of the Palestinian Authority, will for the first time spell out why he wants to declare a Palestinian state – widely expected to be on May 4 next year – unless Israel links postponing such a declaration to advancing the peace process.

But his visit has been preceded by bickering and disagreements among the Palestinians negotiating with Israel.

Saeb Erekat, a senior negotiator, offered Mr Arafat his resignation this week, concerned that he was being undermined by secret talks between Ahmed Qurei (Abu Ala), his colleague, and Benjamin Netanyahu, Israel's prime minister.

Mr Qurei was a key negotiator for the 1993 Oslo Declaration of Principles in which Israel recognised the Palestine Liberation Organisation in return for Palestinian recognition of Israel, and for the 1995 Interim Agreements.

He has since dipped in and out of negotiations, with Israel preferring his trenchant negotiating style, while Mr Erekat is seen as emotional and inflexible.

Mr Erekat "believed Arafat was giving Abu Ala too much prominence. But Arafat has always divided and ruled any of the negotiating teams," said a former negotiator.

"The team is riddled by chaos and personal competition."

Mr Erekat, one of the few negotiators who lived in the West Bank during the *intifada*, or Palestinian uprising against Israel, has repeatedly argued that the Palestinians have already conceded too much – agreeing to Israel handing over, with conditions, 13 per cent of West Bank land in a second troop pullback.

But Mr Qurei and some other senior Palestinian officials take the view that a compromise can be reached and are concerned they could end up declaring a state without any agreement on troop pullbacks, little land and insufficient international recognition for such a state.

Mr Netanyahu, who will speak at the UN today, said a unilateral declaration would mean the end of Oslo. But with Israeli polls showing consistent majority support for a 13 per cent pullback and for the accords, it would be a high political risk to ditch Oslo.

Pressure on Iran media grows

By Mark Huband in Tehran

Iran's conservatives took fresh steps yesterday in their campaign against the independent media when parliament demanded that journalists accused of writing against Islamic principles be put on trial for threatening national security.

The 270-member conservative-dominated Majlis (parliament) also intensified pressure on a political ally of Mohammad Khatami, the reformist president, by demanding that the limits of press freedom be defined by the government.

"Those who write against the principles of Islam should be confronted as those working against the security of the country... [the government should] give proper explanations of the duties of the mass media and a real definition of social freedoms in order to lead society towards calm and tranquillity," a statement said.

The statement intensified pressure on Ayatollah Mohajerani, minister of culture and Islamic guidance, and an important supporter of Mr Khatami, to reveal how far the government is prepared to go to promote its relatively liberal agenda.

Mr Khatami's supporters are increasingly concerned that the conservative majority in parliament, in alliance with conservative clerics and business people, has now established a strategy to hinder liberalisation, which 72 per cent of Iranian voters supported at the polls last year.

"The media is an issue being used as a tool in a power struggle," said a pro-Khatami government official yesterday. "For a time, real politics was going on in Iran. We were trying to win by means of argument. But then the other side, the conservatives, realised that they were not winning. It looks like the other side has realised it can't continue the game within the rules that Khatami has set."

The MPs' demands came in response to a virulent attack on the media launched last week by Ayatollah Ali Khamenei, Iran's supreme leader. In a thinly disguised attack on Mr Khatami's policy of widening civil liberties, Ayatollah Khamenei said sections of the media had abused the freedom they had been accorded and that action would be taken to stop them.

His criticism led to one of the country's most popular daily newspapers, Tous, being closed down and staff detained.

The action was followed by the arrest of two senior editors at the state-owned Islamic Republic News Agency (Irna).

Asian crisis to hit W Europe exports

By Guy de Jonquières

Asia's financial crisis is set to reduce western Europe's total net exports by $55bn a year, the biggest drop suffered by any of the world's trading regions, says a study* by the Institute for International Economics, a Washington-based research group.

The crisis is expected to add $43bn to the US trade deficit, and $47bn if China makes a modest revaluation of the renminbi. The study says the shift, caused more by falling US exports than by a rise in the dollar value of imports, is likely to produce trade tensions with Asian countries – but not a full-scale US retreat into protectionism.

The overall economic impact of the changes in trade patterns on the US and western Europe is expected to be limited, because falls in their exports are likely to be offset by an expansion of non-tradable activities equivalent to as much as 1 per cent of gross domestic product.

The expansion will be caused by an improvement in industrialised countries' terms of trade and increased capital inflows which would lead to lower interest rates.

The study estimates currency devaluations in the rest of Asia will cost China about $12bn in exports, and says a renminbi depreciation of about 6 per cent would be enough to restore their competitiveness to the level before the region's financial crisis erupted.

But it says that would risk triggering a further round of Asian currency devaluations and "could amount to smashing a lot of crockery for relatively minor gains". It says China should try instead to maintain domestic demand through reforms, particularly the creation of an efficient government bond market to help fund its investment needs.

Although currency devaluations in Asia will reduce exports to the rest of the region by Singapore, Taiwan and Japan, the three countries are likely to increase their overall trade surpluses, making harder the adjustment task facing neighbouring economies, it says.

Although the rising US trade deficit is expected to provoke disputes with Asian countries, these are likely to settle on US terms because they depend heavily on its market.

Fears of aggravating Asia's financial instability and the World Trade Organisation's strengthened rules are expected to restrain the US from taking really aggressive trade action. However, the US will find it harder to avoid such measures if its economy weakens and unemployment rises appreciably.

The biggest increases in the US trade deficit will be due to trade with Japan and South Korea. The deficit will be swollen mainly by lower US exports to Asia of machinery, services and industrial intermediates, and higher imports of vehicles, parts, electronics and machinery.

* *Global Economic Effects of the Asian Currency Devaluations; Institute for International Economics, 11 Dupont Circle NW, Washington DC 20036-1207. Tel: 202-328 9000.*

GDP, balance of trade, and absorption changes

% of GDP	Real GDP change	Real trade balance change	Real absorption change
US	0.04	−0.86	0.90
Western Europe	0.04	−0.91	0.95
Australia and New Zealand	0.15	−1.70	1.85
Japan	−0.06	0.53	−0.59
South Korea	−6.99	15.33	−22.32
Taiwan	−0.19	1.83	−2.02
China	0.28	−2.43	2.71
Indonesia	−6.53	12.45	−18.98
Thailand	−8.81	30.59	−39.21
Philippines	−6.89	12.62	−19.51
Singapore	−1.42	7.55	−8.97
Malaysia	−7.44	27.27	−34.72

Source: Consensus Forecasts

WORLD UNEMPLOYMENT THIRD OF ALL WORKERS AFFECTED, SAYS ILO REPORT

Asia crisis will add to jobless total

By Robert Taylor, Employment Editor, in London

Up to one-third of the world's 3bn workers will be either without a job or under-employed by next year with the growing global recession, according to forecasts published today by the International Labour Organisation.

Its latest world employment report estimates the number of jobless will reach 150m by the end of this year, with a further 25 to 30 per cent of workers under-employed (between 750m and 900m people), either working substantially less than full time but wishing to work longer or earning less than a living wage. The Asian financial crisis will have added 10m new unemployed to the total since it began in mid-1997.

The ILO also calculates that 60m young people aged 15 to 24 are searching for work but cannot find any. It says the figures do not take account of the "considerable number of discouraged" workers who have given up hope of finding work and involuntary part-time workers.

The report argues that, before the onset of the Asian crisis there were "many encouraging signs of economic revival" but this has "in most cases not led to higher employment growth". The ILO highlights the deterioration of labour markets across the world.

It also draws attention to specific Asian economies where steep rises in unemployment are taking place. In Indonesia, it warns that the jobless figure is likely to account for 9 to 12 per cent of the labour force by the end of the year compared with 4 per cent in 1996, while real wages could plummet by 15 per cent.

The ILO says 60m young people are looking for work, unsuccessfully

In Thailand, the ILO believes unemployment could rise to nearly 2m or 6 per cent of the labour force this year compared with less than 2 per cent two years ago with a four- to five-fold growth in under-employment. In South Korea unemployment has more than doubled from 5 to 10 per cent since last November, while in China it is estimated that 3.5m workers have lost their jobs this year alone, with unemployment rising to between 5 and 6 per cent.

The report also points to the rapid rise in unemployment in the so-called transition economies of central and eastern Europe and the former Soviet Union, where the jobless totals have risen from zero to more than 9 per cent on average, accompanied by lower real wages and income inequality with economic and enterprise restructuring.

Latin American countries have experienced substantial growth but this has not led to any significant expansion in job opportunities. Only in the US sis the employment outlook optimistic, with the lowest jobless totals for more than a quarter of a century.

The ILO is more encouraged by employment trends in Africa but it cautions that, with an annual 2.9 per cent increase (a net growth of 8.7m job-seekers) in the labour force, little net job creation is expected in the formal sector.

In the European Union, more than 18m workers are without a job but the proportion of unemployed has fallen slightly from 10.7 per cent last year to 10.2 per cent this June.

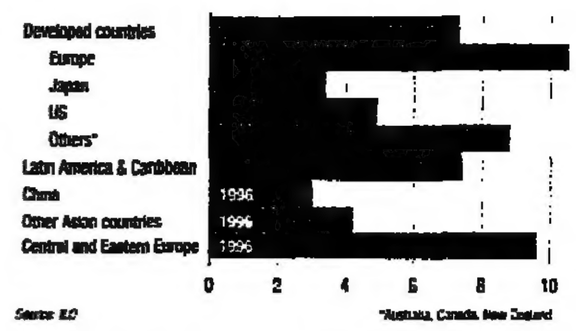
The ILO concludes that the Asian financial crisis has "shown the cost of neglecting social concerns". The report argues that "the pace of globalisation has been primarily driven by market forces and national and, to some extent, international rules, institutions and practices needed to render its consequences socially acceptable have been insufficiently developed".

But it also believes the recent developments in east Asia have not "reversed the view that expanding global trade and investment flows provide opportunities for all countries to achieve higher economic growth rates and job creation".

The report believes depressed world commodity prices, the introduction of European monetary union, asset price "bubbles" and further liberalisation of trade and regulation with increased competition will affect future employment trends.

World Employment Report 1998-1999. ILO, Bureau of Public Information, 4 Route des Morillons, CH211 Geneva 22, Switzerland. SFr45.

World unemployment
1997 rate (%)



Source: ILO

*Australia, Canada, New Zealand

Ciampi set to head key IMF committee

By Robert Chote, Economics Editor

Carlo Azeglio Ciampi, Italy's Treasury minister, has emerged as frontrunner to chair the International Monetary Fund's key ministerial committee, a role which will be crucial as the IMF faces pressure to reform in the wake of the Asian crisis.

Mr Ciampi, one of the oldest but most energetic finance ministers in Europe, would be a popular choice to chair the so-called "interim" committee, which meets twice a year. Officials in Washington believe that he is likely to accept the job, but perhaps only after a period of feigned reluctance.

The Group of Seven leading industrial countries have been keen that the job go to one of their number, so that they can keep a firm grip on the process of IMF reform as it unfolds. But Mr Ciampi is also likely to enjoy support in other countries.

"Italy is part of the G7, but not its driving force," said one European finance ministry official. "Mr Ciampi is someone with experience who will take into account the broad views of the IMF membership, not just the current views of the G7."

The appointment of the interim committee chairman is likely to be announced in the next few days. The committee's next meeting takes place on October 4, during the IMF's annual meeting in Washington. The vacancy has opened up following the resignation as chairman earlier this summer of Philippe Maystadt, Belgium's long-serving finance minister.

The new chairman will face an immediate challenge in restoring the committee's authority, which has been undermined by the US decision to create a "Group of 22" to discuss reforms to the architecture of the international monetary system.

This group of leading industrial and emerging market countries has been organised into three working parties, which are preparing reports on transparency, strengthening financial systems and involving the private sector in crisis resolution. This was supposed to be a one-off exercise, but President Bill Clinton suggested last week that it meet again at ministerial level to discuss further reforms to the international financial system.

Michel Camdessus, the IMF's beleaguered managing director, is determined that the G22 should not upstage the interim committee. He argues that the interim committee is representative of all the IMF's 182 members through its constituency structure, not just selected friends of the US.

The G22 in turn was created in part through US frustration at European over-representation on the Group of 10, which normally discusses international financial issues. The G22 has representatives from Asia and Latin America, although Africa is represented on neither of these groups.

Carlo Azeglio Ciampi: energetic finance minister

CHINESE CURRENCY MINISTER LISTS REASONS WHY BEIJING BELIEVES A DEVALUATION IS UNDESIRABLE

Renminbi pledge for 'this year'

By James Kynge in Beijing

A senior Chinese official yesterday gave a list of reasons why Beijing should not devalue its currency, the renminbi, but stopped short of promising that the government's stance against devaluation would extend into next year.

Zeng Peiyan, minister in charge of the state development planning commission, said there was "no necessity for China to devalue at the current stage". He added that there would be no devaluation "this year".

"Whether we will devalue the renminbi or not will be determined by the international and domestic economic situation and also will be determined by the international balance of payments with China," said Mr Zeng, a close associate of Zhu Rongji, the premier.

His remarks, which came as exports are slowing markedly, represented a softening of recent pledges by senior officials that China's currency would not be devalued for one or two years.

Exports fell 2.4 per cent in August from the same month a year ago, and export growth for the year to August was 5.5 per cent, down from 20.9 per cent in the whole of 1997. The black market rate of the renminbi has fallen in recent weeks to about RMB8.8 to the US dollar, compared with the official rate of RMB8.27, indicating a significant degree of nervousness among Chinese that the currency could be devalued.

Economists said that Mr Zeng's comments implied that if certain economic conditions changed, a devaluation could be possible. But the minister made it clear that the current combination of domestic and external factors meant that devaluation was not desirable.

A devaluation would not, he said, stimulate exports to South Korea or south-east Asian countries because demand in these countries has been depressed by domestic recessions.

Neither would a devaluation necessarily enhance the competitiveness of Chinese exporters, he added, because about 50 per cent of total exports are derived from processing imported raw materials.

A devaluation would therefore increase the manufacturing costs, hurting exporters perhaps more than helping them. Allowing the renminbi to depreciate would shake the confidence of domestic and international investors, Mr Zeng said, and increase the pressure for a severing of the Hong Kong dollar's peg to the US dollar.

Chinese government economists have said that breaking the Hong Kong dollar peg would hit asset prices and reduce the territory's effectiveness as a key source of much-needed equity and bank finance for mainland China's corporations.

Finally, a devaluation could trigger another round of competitive currency depreciations throughout Asia, thereby deepening the region's crisis, Mr Zeng said.

LTCB muddle weakens Obuchi

By Michiyo Nakamoto in Tokyo

Keizo Obuchi, the Japanese prime minister, returns to Tokyo today a weaker leader than when he flew to New York a few days ago.

Instead of making a shining appearance on the international stage with his speech at the United Nations and at his summit talks with Bill Clinton as he had hoped, Mr Obuchi managed to create political turmoil at home and nearly botch a hard-won agreement on banking sector reform with the newly confident opposition.

It was Mr Obuchi's own remarks in New York that threatened to undo the flimsy deal on financial stabilisation measures agreed between his ruling Liberal Democratic party and an opposition alliance late last week. The ensuing confusion has highlighted cracks within the LDP as tensions rose between hardliners, angry at the party's inability to overrule the opposition, and more moderate members willing to compromisefor the sake of a deal.

Not just the opposition but members of his own party will demand some explanation of his remarks and a clarification of where the LDP stands on the most contentious issues of the deal, notably what to do about the troubled Long Term Credit Bank (LTCB).

Mr Obuchi claimed LTCB would not be allowed to fail but would be provided with public funds. The LDP still harbours hopes of injecting public funds into troubled banks while keeping them intact – an idea that the opposition Democratic party finds unacceptable. Neither is it clear that the LDP has come to terms with the need to nationalise LTCB as the opposition demands.

If the LDP fails to deliver on these points, the opposition could once again withdraw co-operation, which is crucial to passing the bills. And even if the LDP sticks to its promises, concern is mounting that the agreement not to recapitalise weak banks could aggravate the credit crunch by pushing them to cut assets further.

Jakarta claims $4.2bn debt deals

By Sander Thoenes in Jakarta

Indonesia yesterday claimed success in rescheduling $4.2bn in sovereign debt, extending soft loan payments to governments for 20 years and refinancing loans from international banks.

Ginandjar Kartasasmita, the powerful co-ordinating minister for finance, economy and industry, announced that the Paris Club of creditor nations had agreed to delay payments of principal due before April 2000, on any loans to the government or state companies which had government guarantees.

This should offer some relief to a cash strapped government struggling to subsidise imports such as fuel and rice, which have shot up in price. Mr Ginandjar said his government was happy with the agreement from the Paris Club, particularly in the rescheduling of payments of $1.2bn on project loans, which were extended over 20 years with a five-year grace period.

Payments of $3.2bn in export credits would be extended over 11 years, with a three-year grace period.

Japan, Indonesia's largest creditor which has been wary of rescheduling for fear of setting a precedent for other Asian debtors, offered new loans equal to outstanding dues for this year and has yet to decide whether to reschedule, refinance or offer new loans for the year ending March 31, 2000.

Payments due to commercial banks would not be rescheduled but refinanced at new, higher, interest rates. It was not clear from the government press release whether this framework was binding: Airbus Industries for instance, agreed earlier this month to reschedule $750m owed by Garuda Indonesia, the state owned airline. Some $1.7bn of the rescheduled $4.2bn was due this fiscal year, ending March 1999, but this is only a small part of at least $7bn the government had planned to pay this year.

One of its biggest and toughest creditors is the World Bank, which does not reschedule with any country, for fear of encouraging others to default. Indonesia has been paying off more to the Bank than it has received in recent months, because of a lending spree in earlier years of economic growth.

Anwar's wife put under restriction order

By Sheila McNulty in Kuala Lumpur

Malaysian authorities yesterday issued a restriction order against the wife of the sacked deputy prime minister of Malaysia, Wan Azizah Wan Ismail

Dr Wan Azizah, an eye doctor, told reporters in her house that the restriction, under the draconian Internal Security Act (ISA), which can lead to detention without trial, bars her from holding rallies at her house.

The restriction is clearly designed to end Malaysia's budding reform movement. Dr Wan Azizah's house has been the focal point of the reform movement launched by her husband after he was sacked by Mahathir Mohamad, the prime minister, for having "low morals".

Her husband, Anwar Ibrahim, says the charges of sodomy among others, are part of a conspiracy targeting him for becoming Dr Mahathir's rival. Mr Anwar was detained under the ISA after a rally on Sunday at which up to 60,000 supporters demonstrated for reform.

If the authorities determine that Dr Wan Azizah has violated the order she faces not less than one year and not more than three years in jail and can be fined not more than M$10,000 ($2,630).

Dr Wan Azizah said the restriction would not end the reform movement. "The reform has started in the hearts and minds of a lot of Malaysians," she said. "For the movement, I am not lost. I am focused. It has to go on for the sake of the country."

Dr Wan Azizah said she had been assured by police that her husband is alright though neither she or her lawyers have been permitted to see him and she was anxious about his well-being.

About 200 supporters stood outside the court all day yesterday. But the tens of thousands who rallied to him just a week ago were gone. The authorities have arrested more than 100 people.

Mr Anwar's lawyers said they heard he would be formally charged in connection with criminal allegations made against him. But he was not brought to court yesterday. "We don't need this cat and mouse game," said Sulaiman Abdullah, a lawyer. "We have not seen him. We do not know where he is."

Gwen Robinson adds from Sydney: Tensions between Australia and Malaysia emerged this week following remarks by John Howard, the Australian prime minister, criticising the crackdown by Dr Mahathir on his political foes. Mr Howard said that last week's arrest of Mr Anwar reflected a "more authoritarian approach."

In a strong response to Mr Howard's remarks, Dr Mahathir accused the Australian leader of authoritarianism and of failing to "check the real facts". "I think it's authoritarian when you make an accusation before you even find the real facts. Once you listen to both sides, then you can make a very reasonable opinion. But when you look at the newspapers and you make an opinion, that's very dictatorial."

Goh Chok Tong, Singapore's prime minister, also questioned the wisdom of the latest moves in Malaysia saying he feared they had created political uncertainty which could dampen investor confidence in the region.

TARGET DOUBTS DEPRECIATION COMMENDED ☐ GROWTH AT 5%

IMF warns India on high fiscal deficit

By Mark Nicholson in New Delhi

The International Monetary Fund has warned India that its stubbornly high fiscal deficits threaten "heavy costs" to the country's long-term economic prospects and has urged an "ambitious" fiscal adjustment to toughen fiscal policy.

The Fund also expressed doubts in its annual directors' review of the economy that the government would achieve its planned "modest reduction" in this year's fiscal deficit to 5.6 per cent of gross domestic product from 6.1 per cent last year, noting slippage already in this fiscal year to March in both spending and revenue targets.

Yashwant Sinha, finance minister, last week acknowledged early sluggishness in tax receipts this year, but made his firmest public commitment yet to meeting the deficit target set in his June 1 budget. "There is no way I will allow the fiscal deficit to go above 5.6 per cent," he said, suggesting government revenues would improve during a long promised economic upturn. He also maintained that the government could raise more than its budgeted Rs50bn ($1.3bn) from privatisation and disinvestment receipts.

Nevertheless, the Fund report argued that the Bharatiya Janata party-led government's attempts to stimulate the economy through higher government spending on infrastructure and other sectors "could risk further straining macroeconomic stability". It argued instead for a "stronger macroeconomic stance" to restore low inflation, which has risen consistently in recent weeks to above 8 per cent.

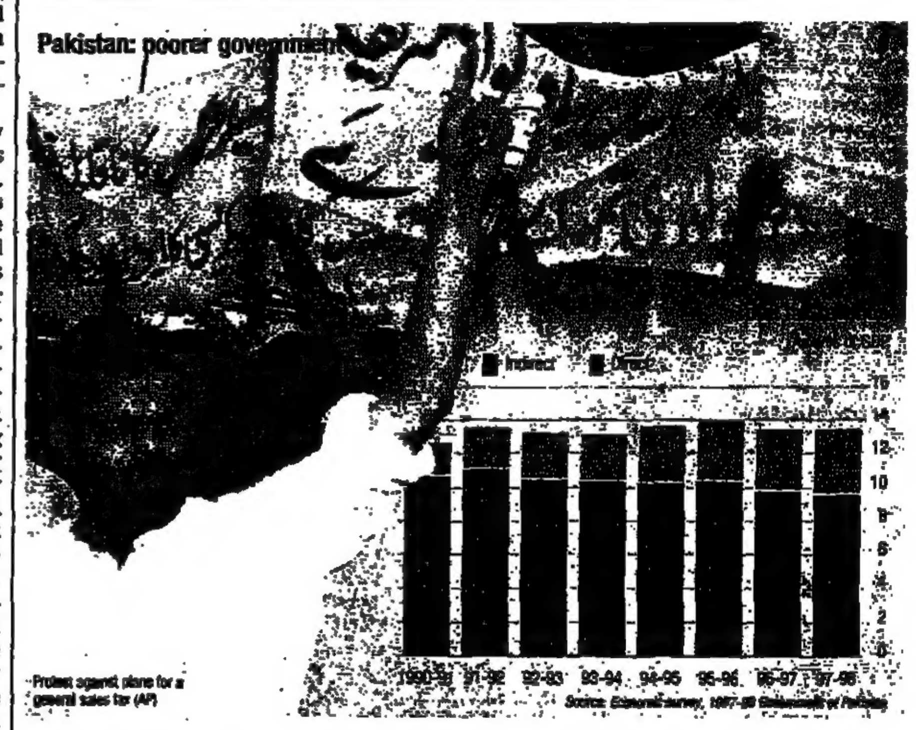
The Fund urged India's government to "launch an ambitious and front-loaded medium-term adjustment plan" to contain the deficit over and above moves announced in Mr Sinha's budget. "Reviving the fiscal reform process would help lower real interest rates, improve debt dynamics, create room for meeting essential social and infrastructure spending, and reduce the drag on growth," it said.

The Fund suggested moves to improve tax administration, widen the narrow tax base in India, cut spending on subsidies and reduce public sector employment. It also urged the government to encourage greater fiscal discipline among state governments, whose combined fiscal deficit amounts to around 3 per cent of GDP. The IMF said, accordingly, that India's consolidated fiscal deficit stood at around 9.5 per cent of GDP.

More generally, the Fund's directors praised India for "considerable progress" in economic reforms over recent years and noted that despite world financial turmoil, India enjoyed "significantly positive" GDP growth – likely to reach 5 per cent this year – a "satisfactory" balance of payments position and "relatively comfortable" foreign exchange reserves, currently exceeding $26bn.

The Fund also commended India for an orderly 17 per cent depreciation of the rupee against the dollar since the onset of the Asian currency crisis in July last year. It said India should respond to any further pressure on the rupee through further tightening of interest rates, a measure to which India has twice resorted this year to steady the currency's depreciation.

It said, though, that there remained "substantial risks" for India in the near term, partly arising from global economic uncertainties and structural economic difficulties within India. But it also emphasised that risks were compounded by "uncertainties created by the political situation and international economic sanctions", the latter imposed by the US and Japan following India's May nuclear tests.



Protest against plans for a general sales tax (AP)

Pakistan caught between low taxes, retailers, and the IMF

Plans for a sales tax to clinch IMF deal leave government exposed, writes **Farhan Bokhari**

Every year at this time the queues begin to get longer and hotter as the September 30 income tax payment deadline approaches. In Pakistan, if you are sensible you line up to pay your tax in cash. For in the murky world of the Pakistani tax system, cheques have a habit of getting lost.

In the queues – at the central bank and three public sector banks authorised to receive tax payments – many fear they will be turned away at the counter because their notes are too old and tatty.

It is a system that works for very few, least of all the taxpayer or the government. Indeed, Pakistan, where only about 1 per cent of the population pays any tax at all, has one of the lowest tax takes in the world.

Now the government – encouraged by the International Monetary Fund, which wants to see Pakistan raise more revenue to plug its budget deficit before lending the country any more money – looks intent on introducing a retail tax which it hopes will do the trick.

Retailers do not like it one bit and have been on strike to try to dissuade the government. "This is a matter of life and death for us," says one. Many know that it could end years of convenient tax evasion through fictitious records. Now government inspectors will be able to carry out random searches at shops and count the money in the till.

But an agreement with the IMF is essential for Pakistan to stave off an impending crisis on repaying its $42bn foreign debt. The government says that it needs between $4bn and $5bn in multilateral funding this financial year (July-June), to compensate for the effect of western sanctions following its nuclear tests in May.

Exports plummetted more than 12 per cent last month compared with the same period a year ago, in the latest indication of a growing balance of payments problem.

Western economists and government officials say that the fund is unlikely to agree to a new loan, unless Pakistan agrees to enforce the new retail tax, known as the General Sales Tax or GST at a rate believed to be at least 12.5 per cent.

The shopkeepers argue that the General Sales Tax, as it is called, would breed more corruption among the country's notorious tax collectors. The national small traders' coalition, an umbrella of business associations opposed to the tax, says that tax collectors would demand bribes from shopkeepers and penalise those who refuse to pay, by raising their tax bills.

Officials at the Central Board of Revenue, the national tax collection agency, say that many shopkeepers are afraid of the GST because it would be the first opportunity to assess their sales. Keeping track of daily sale records would help tax officials to assess annual revenues and incomes.

"We are very clear that we have to enforce the GST," said Moeenuddin Khan, chairman of the CBR. "We are willing to consider problems and listen to genuine grievances [of retailers] but there's no turning back."

According to Zahid Noorani, a director at Karachi's Khadim Ali Shah Bukhari brokerage house, about 45,000 cheques are cashed in Karachi every day as opposed to 300,000 in Colombo in Sri Lanka and 1m in Bombay in India.

"That's not because the spending power is not there. It's because tax evasion is rampant and people prefer to do business in cash rather than by cheque," he said.

Critics also say that the government has not made adequate preparations to begin collecting the GST despite official statements to the contrary.

Arshad Zaman, former government chief economist, said: "The GST is a very good idea but its not implementable. There are administrative weaknesses which mean that the tax machinery is not capable of collecting."

Mr Zaman says that the GST is likely to provoke stiff opposition from businesses, and could well turn out to be a big political challenge for prime minister Nawaz Sharif's already beleaguered government.

"The GST will touch a number of groups, everybody will be up in arms and it will become very controversial."

Critics lament the government's apparently weak resolve. In one widely quoted case, a group of tax officials were beaten up earlier this year, at the fashionable "Liberty" market in Lahore, Mr Sharif's home town.

No arrests have yet been made. One senior CBR official complained: "The government showed no teeth because the perpetrators were the prime minister's constituents."

Mr Khan accepts that the government may have to go slow in a "phase-by-phase approach", which means that instead of bringing all retailers under the GST in one go, the largest retailers may be the first, followed by smaller ones later.

One way or the other, Mr Sharif has a job ahead of him if he wants to qualify for the IMF money his government says it so sorely needs.

An IMF team visiting Pakistan is expected to leave at the weekend to brief officials at their headquarters over progress made in more than a week of discussions.

MONETARY UNION SLIDE IN PESO HAS SPARKED DEBATE ON FUTURE OF MEXICAN CURRENCY AND ADVANTAGES OF LINKING WITH US

Calls grow for Mexico to adopt US dollar

By Henry Tricks in Mexico City

Leading private sector institutions in Mexico, including Banamex, the largest bank, are believed to favour a monetary union with the US similar to that of the European Union.

The sensitive debate has been sparked by a recent slide in the peso that has led to calls to adopt the dollar as the Mexican currency.

Mexico's most influential business think-tank, the Private Sector Centre for Economic Studies (CEESP), and Banamex both said they were studying the possibility but they have not made formal proposals.

Mexican finance officials said there were no plans to scrap the existing floating exchange rate system and monetary union with the US would face enormous political hurdles. It would involve Mexico surrendering much of its sovereignty over monetary policy to the US Federal Reserve, and the US scrapping barriers to the free flow of labour from Mexico, they said.

But the debate was expected to grow in Mexico because of the fragility of the peso, which has fallen some 25 per cent against the dollar this year, despite recovering from lows since September 10.

Its steep decline in August and early September exposed some of the shortcomings of the floating rate system, which last year won widespread applause for helping shield Mexico from the worst fallout of the Asian crisis that affected southern neighbours, such as Brazil, with more rigid exchange rates.

During the latest bout of instability, inflation has increased and interest rates on benchmark 28-day treasury bills were forced up to their highest level in almost three years before easing to 37.6 per cent this week.

Economists have warned that if the peso erosion is not stopped, Mexico could fall into a devaluation-inflation spiral. Inflation this year is expected to exceed 16 per cent, above the central bank's 12 per cent target.

"The performance of the peso in the last 22 years has been a reason for shame more than pride. It is time now to put aside false nationalism and study the costs and benefits of different options for achieving price stability. One of these options is the dollarisation of the economy," wrote Salvador Kalifa, a Mexican economist, in Reforma newspaper.

Senior officials at Banamex said they were reviving studies on possible dollarisation, put aside in 1995 when Mexico introduced the floating exchange rate regime in the wake of its disastrous 1994 devaluation.

Alberto Gómez, Banamex's chief economist, said one area of study was whether the North American Free Trade Agreement (Nafta) between Mexico, the US and Canada could be broadened into a "monetary Nafta" along the lines of the EU. The CEESP said it was also analysing "monetary union" with the US.

A senior central bank official said there were no plans to change the existing system. Monetary authorities were "fully committed to the floating regime and are not looking at another".

The current regime has enabled the peso to fluctuate with limited intervention from the central bank. The bank said on Tuesday its hard currency assets remained above $20bn, more than at the start of the year.

Cardoso may raise taxes to cut deficit

By Geoff Dyer in São Paulo

President Fernando Henrique Cardoso of Brazil has said he will consider raising taxes to reduce the country's large fiscal deficit if he wins re-election in October.

In a speech aimed at showing his determination to defend the currency from speculative attack, Mr Cardoso promised a sharp reduction in government spending would come after the elections.

"I am determined to make the [fiscal] adjustment as rapidly as possible, confronting the opposition and the necessary losses," he said.

Mr Cardoso also reiterated the Brazilian government's call for a "contingency fund" to be set up by the International Monetary Fund and other international institutions to help Latin America survive the market turmoil.

Political analysts said that the speech reflected the confidence of Mr Cardoso's advisers that he would win comfortably in the first round of voting on October 4.

Mr Cardoso is well ahead in the opinion polls, though in a new poll published yesterday his support fell from 49 per cent to 47 per cent.

"They want the victory to be based on a mandate to do such an adjustment," said Carlos Kawall, chief economist at Citibank in São Paulo. "They don't want voters to be deceived by tough measures after the elections."

Economists believe Brazil will be forced into devaluation if the government does not produce a convincing strategy after the elections for cutting the budget deficit. The deficit is more than 7 per cent of gross domestic product and is rising.

Mr Cardoso's speech was the first time he had publicly acknowledged the possibility of tax increases as part of the fiscal package the government is expected to outline after the elections.

"Cutting expenses might not be sufficient, it might also be necessary to increase tax revenues," Mr Cardoso said.

'I am determined to make the [fiscal] adjustment as rapidly as possible'

Analysts believe the government may increase income tax for the well-off and broaden the taxpayer base.

Mr Cardoso's speech helped set the tone for a more confident day in Brazil's financial markets.

By early yesterday afternoon, shares on the São Paulo stock exchange had risen 6.9 per cent, following the strong performance in markets in the US and Europe.

However, economists warned that the country was still suffering heavy capital outflows, including another $400m on Tuesday.

Hurricane Georges expected to strike at Florida Keys

By Canute James in Kingston

US officials yesterday ordered the evacuation of the Florida Keys, an archipelago off the southern tip of the Florida peninsula, as forecasters predicted a strike by a deadly hurricane at the weekend. Residents (right) have started to board up their homes and businesses.

The storm, Georges, killed at least 12 people in the Dominican Republic, and Haitian diplomats in the US said yesterday there appeared to be "significant damage" in their country.

Blamed for at least 33 deaths in the north-eastern and northern Caribbean since the weekend, Georges hit eastern Cuba yesterday with 75mph winds, severely weakened after battering the 10,000ft high mountains of Hispaniola.

However, forecasters said they expected some strengthening when the system passed over water again, and warned that there was danger to life and property from heavy rain.

The hurricane moved yesterday towards the north-west, and forecasters said its eye would stay over Cuba's north coast until today. Hurricane warnings were posted for the Bahamas, with Jamaica and the Cayman Islands expected to be affected by rain and gusting wind.

There was looting in Santo Domingo, the Dominican capital, following the storm. Many buildings were damaged by the wind, trees were uprooted, and there was extensive flooding.

The storm had earlier killed six people in Puerto Rico, three in St Kitts-Nevis and two in Antigua. All the islands in its path have had limited electricity and telephone services as lines were brought down.

Puerto Rico and the US Virgin Islands, which are US possessions, have been declared disaster areas by the Federal government, and are receiving substantial aid to restore power and communications, and to care for thousands of homeless people.

Picture: Reuters

John Glenn is set to become the oldest man in space AP

Space mission set to test new bone drug

By Victoria Griffith in Toronto

When John Glenn returns to space next month he will take part in a test of a new treatment for osteoporosis, in what is thought to be the first space experiment with a drug product in the midst of clinical trials.

If approved, the drug – developed by the Canadian biotechnological company Allelix and the Swedish pharmaceutical group Astra – would be the only treatment that actually builds bone mass, rather than just slowing bone deterioration.

The space experiments may aid the drug's clearance by the US Food and Drug Administration.

The space mission on October 29, manned by the 77-year-old John Glenn and six other astronauts, is dedicated to learning more about the ageing process, the Canadian Space Agency said yesterday.

Astronauts and the elderly have much in common. Both suffer from loss of balance, sleep disorder, muscle atrophy and the loss of bone mass (osteoporosis). In the elderly, osteoporosis can cause bones to become so brittle that turning over in bed can cause a fracture.

Because gravity seems to stimulate bone growth by sending messages to the body that it is under stress, astronauts in a weightless environment suffer a loss of bone mass as well. On short flights, such ailments are usually mild and temporary.

As flights become more ambitious – with some astronauts in space for nearly a year – these illnesses become more serious.

Nasa, the US space agency, will be keeping a close eye on Mr Glenn upon his return to find out how the astronaut's age affects his recuperation. He is by far the oldest person ever to venture into space and the mission has revived his popularity as a national hero, a status he achieved when he became the first American to orbit the earth more than 30 years ago.

Space missions are becoming less about the "wow" factor of being in space and more about scientific research. Most of these experiments are to build basic knowledge rather than evaluate specific products. Some of them have been a bit bizarre. Five years ago, the US space shuttle brought dozens of crickets aboard, to see if their gravity sensors would still develop in a weightless environment.

The Allelix test, which Mr Glenn has expressed an interest in performing himself, will use cell cultures to evaluate the action of the drug, a natural hormone that appears to stimulate bone growth.

Canadian growth rate put at 2.5-3%

By Scott Morrison in Toronto

The Canadian economy may expand by 2.5-3 per cent in the fourth quarter over the same period last year, thanks to continued consumer confidence, business investment and a resilient US economy, Gordon Thiessen, Canada's central bank governor, said yesterday.

While global economic turmoil has slowed the pace of Canadian economic expansion, Mr Thiessen reiterated that the domestic economy remained fundamentally strong because of Canada's low inflation, its fiscal surplus, and a declining ratio of debt to gross domestic product.

He said most forecasters had consistently underestimated the resilience of the US economy, and might be doing so again. The performance of the Canadian economy is closely related to the outlook in the US, which buys 80 per cent of Canada's exports.

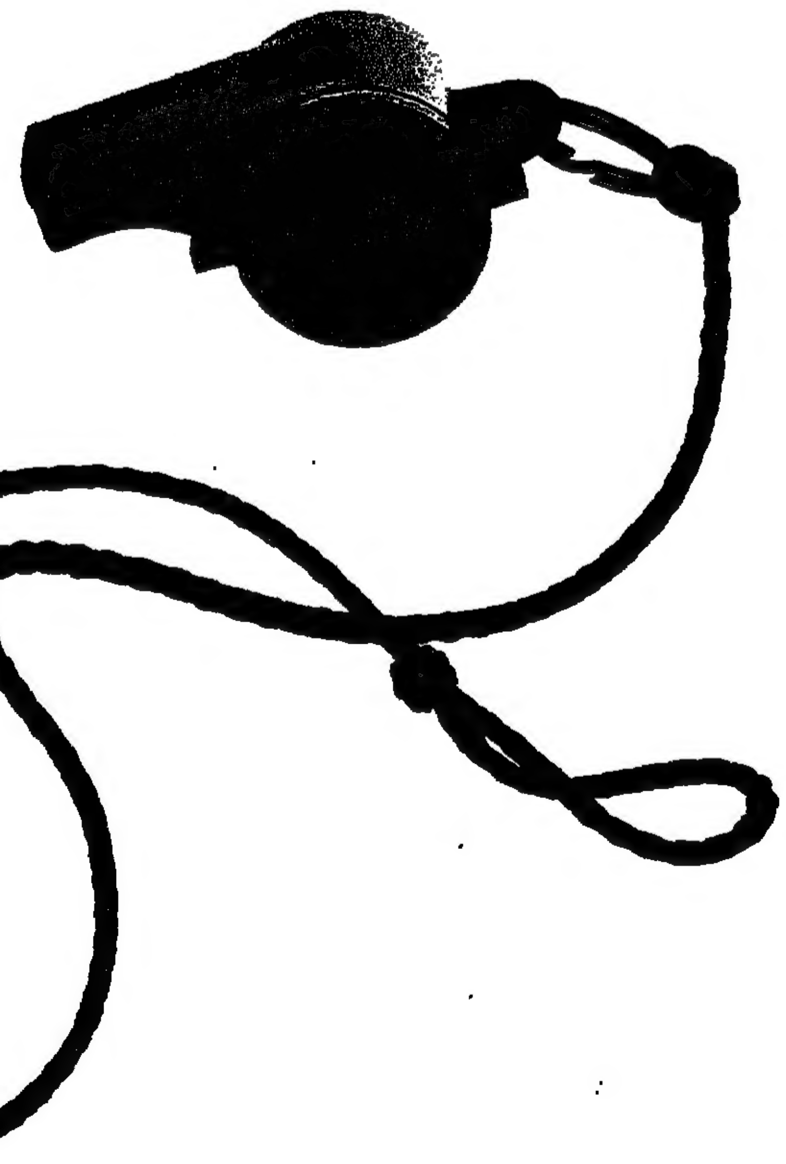
John Lester, an economist at the brokers CIBC Wood Gundy, said a 2.5 per cent growth rate would imply that the economy had grown an annualised 2.3 per cent in each of the final two quarters of the year. The economy expanded at an annualised rate 3.7 per cent in the first quarter and 1.8 per cent in the second quarter.

In his first speech since the Bank of Canada raised its benchmark interest rate in late August, the governor defended his decision to defend the Canadian dollar against a potential loss of investor confidence. Mr Thiessen noted that the dollar had strengthened since the one-point rate increase and added that medium- and long-term interest rates, which had been rising as the dollar weakened, had subsequently declined.

Canadian markets did not react to Mr Thiessen's comments and the Canadian dollar was stable at 65.5 US cents. Most investors were waiting to hear whether Alan Greenspan, US Federal Reserve chairman, would hint whether the Fed would lower interest rates next week.

Detractors have criticised the bank's recent rate increase, arguing that higher interest rates would stifle economic growth. The Bank of Canada would be expected to match any rate drop by the Fed.

Mr Thiessen blamed this year's decline in the Canadian dollar on the slump in global commodities prices.



Europe warned it must act to spur e-commerce

By Paul Taylor

Europe must cut telecommunications costs and avoid restrictions on the use of encryption technologies if it wants to exploit electronic commerce and maintain international competitiveness, Craig Barrett, Intel's chief executive, said yesterday.

Mr Barrett, who took over from Andy Grove as chief executive of the world's biggest semiconductor manufacturer earlier this year, issued his warning during a meeting attended by British business leaders in London.

He said the growth of electronic commerce in Europe faced several potential roadblocks, including the relatively high cost of internet access and government restrictions on the use of the encryption tools needed to guarantee security.

Mr Barrett's comments follow similar warnings by US administration officials and other US information technology business leaders, including Bill Gates, Microsoft's chairman, that Europe is still lagging behind the US in some areas of technology adoption.

Mr Barrett, who met Martin Bangemann, the European Union's industry commissioner, earlier this week, pointed out that telecom costs in Europe were on average five times higher than in the US.

"Telecoms costs need to come down in western Europe in order to facilitate electronic commerce," he said.

He added that the greater availability of other telecom services such as asymmetric digital subscriber lines – a technology that enables high volumes of data to be carried over ordinary copper telephone lines – as well as cable and satellite would also help.

Mr Barrett also emphasised that governments should avoid placing restrictions on the use and supply of encryption products. He singled out France for particular criticism. "French restrictions deter companies from outside France from engaging in e-commerce activities with France and potentially damage the competitiveness of Europe," he said.

Looking ahead to the future of network computing, he said: "We are moving rapidly towards 1bn connected computers. This does not just represent an online community: it represents the formation of a 'virtual' continent. This seventh continent has no time-zone and no borders. It is a place where business can be transacted 24 hours a day, seven days a week, and whose passport is not by the location in which you were born, but simply a PC and internet connection."

He noted that electronic commerce could account for billions of dollars of trade within 10 years but warned that countries wanting to participate in this market would have to invest in information technology infrastructure.

"In a world of a billion connected computers investment in information technology is not a luxury," he said. "It is a competitive necessity."

CLINTON PRESIDENCY COMPROMISE HOPES OF QUICK CENSURE MOTION INSTEAD OF FULL HEARINGS RULED OUT BY HOUSE SPEAKER

Gingrich rejects deal on impeachment

By Richard Wolffe in Washington

Republican leaders yesterday rebuffed talk of a compromise deal to allow President Bill Clinton to escape impeachment over the Monica Lewinsky scandal.

Newt Gingrich, the Republican speaker of the House of Representatives, said he was committed to further inquiries into the impeachment charges levelled against the president by Kenneth Starr, the independent counsel.

Mr Gingrich rejected speculation that Mr Clinton could escape with a quick motion of censure and an appearance before the House, rather than a long series of impeachment proceedings.

White House aides have been keen to promote the compromise deal, which was first floated by John Kerry, Democratic senator for Massachusetts, at the weekend.

The White House argued that the idea of censuring the president was more in tune with public sentiment than impeachment, which two-thirds of the public reject in opinion polls.

Mike McCurry, White House spokesman, said: "The president, who has punished himself a great deal, certainly understands there is a great deal more punishment he is likely to receive."

But Mr Gingrich said after meeting Democratic leaders yesterday that it was too early to talk about censure. He said: "I do not understand how people can rush to a solution before they finish the investigation.

"I just think there is an awful lot we do not know yet, and there is an awful lot of evidence that has not been gathered yet.

"People need to allow the process to go forward in an orderly manner and not assume that they know the final outcome will be either way."

Democrats yesterday insisted that the House should finish its work on the Starr report quickly. They also argued that Mr Starr had withheld from Congress documents which could be helpful to the president.

Richard Gephardt, the Democratic leader in the House, said: "The choice is clear. We can resolve in a bipartisan effort to the work that needs to be done in the next 30 days in the House, or we might face two years of ongoing hearings."

The House judiciary committee is expected to vote within two weeks to begin impeachment hearings, with a full vote of the House likely soon after. However, the actual hearings are unlikely to begin until after the mid-term congressional elections in November.

The committee will today resume discussions on releasing 16 boxes of unpublished evidence from the Starr inquiry. The materials must be published by September 28.

Committee sources say the new evidence is likely to be far more heavily censored than the hand-written letters, e-mails and transcripts released among more than 3,000 pages of documents on Monday.

The committee is also debating whether to release Mr Clinton's videotaped testimony in the Paula Jones sexual harassment case, in which he first denied having a sexual relationship with Ms Lewinsky. The president's evidence under oath in the Jones case is the foundation for Mr Starr's charges of perjury and possible impeachment.

Manipulators and innocence: tale of the Lewinsky tapes

Monica Lewinsky (right) with Linda Tripp, who befriended her and then had her taped AP

'An author in quest of material teamed up with a prosecutor in quest of a crime, and most of the press became a cheering section for the combination that followed.' **Nancy Dunne** reports

Behind the drama of the impeachment inquiry is a struggle between two women – a subplot of deceit, betrayal, and revenge which will no doubt keep the film makers busy in years to come.

It is not yet certain who will be cast as villain in the relationship between Monica Lewinsky, the former White House intern, and Linda Tripp, the woman who befriended her, taped her and turned her in.

For now Ms Tripp is losing. In last Monday's shipment of evidence from the judiciary committee, which contains Monica Lewinsky's grand jury testimony, she emerges as a manipulative Iago figure.

And Ms Tripp's position is shaky – she is under investigation herself by Kenneth Starr, the tenacious independent counsel.

He is now probing whether seven of the tapes she turned over to him of her conversations with Miss Lewinsky have been duplicated – perhaps for the media – or even altered.

Increasing the pressure, Ms Lewinsky made her position clear when she confided to the grand jury: "I hate Linda Tripp", she said.

But nothing is that simple. Next Monday's documentation drop – presumably the last – will be likely to contain Ms Tripp's testimony, and perhaps her infamous tapes, so the picture could change again.

Her lawyers deny that she tampered with or duplicated the tapes but it has long been acknowledged that she worked closely with a New York literary agent and renowned Clinton-hater – Lucianne Goldberg – in the hope of producing a White House scandal book. And while no book has yet been written, three separate publications of the Kenneth Starr report, which grew out of the tapes, are expected to be the top three entries on the US bestseller lists this week.

Part of this interest stems straight from Ms Goldberg, who played tapes for a Newsweek journalist to get the Lewinsky saga into the mainstream press and laid the groundwork for the White House "tell-all".

As Steven Brill, a media critic, reported: "An author in quest of material teamed up with a prosecutor in quest of a crime, and most of the press became a cheering section for the combination that followed."

According to Mr Brill, Ms Tripp heard of Ms Lewinsky as "a pretty girl" with "a boyfriend in the White House" and sought her out for "material". Ms Goldberg later suggested the taping of their phone conversations.

Monica Lewinsky describes herself as acting often on Ms Tripp's advice and says the notorious stained dress remained unwashed at the suggestion of Ms Tripp.

She had given up her quest for a job in the White House when Ms Tripp said she would never get a job there.

Then Ms Tripp advised her to seek a job in New York with the help of the president and his friend, Vernon Jordan. It was this assistance that gave rise to accusations that the president was trying to bribe Ms Lewinsky to keep quiet about their affair.

"From my discussion with Linda, I was under the impression that Mr Jordan kind of knew with a wink and a nod that I was having a relationship with the president," Ms Lewinsky testified. Further, Ms Tripp had made her promise that she would not sign an affidavit denying the affair in the Paula Jones sexual harassment case, until she was found a New York job.

It was the impression that Ms Lewinsky was being "bought off" that brought Mr Starr into the case.

Ms Tripp, at the suggestion of Ms Goldberg, recommended that Miss Lewinsky send letters and a package to the White House through a courier service owned by Ms Goldberg's brother's family. The receipts for those were given to the journalist.

In spite of all this, the view of Ms Lewinsky as an innocent is not likely to survive next week's evidence.

Ms Tripp described herself, after her own grand jury testimony as "an average American who found herself in a situation not of her own making" and Ms Lewinsky, by her own account, was also capable of manipulation.

The intern stuck closely to Ms Tripp and urged her to lie in the Paula Jones suit to protect the president. "I was desperate for her not to reveal anything about this relationship," she said.

West Coast voters unmoved by scandal in Washington

California candidates fail to arouse enthusiasm, but Clinton is still not an election issue, **Christopher Parkes** reports

Matt Fong has been breathing down Barbara Boxer's neck since he emerged from the June primaries as the Californian Republicans' choice to challenge for her seat in the US Senate.

But if it is remarkable that the little-known state treasurer should have come so far so fast, the real surprise may be that he has still not managed to overtake this most stolid supporter of beleaguered President Bill Clinton.

Polls completed shortly before the Starr report was released, but after Mr Clinton admitted an affair with Monica Lewinsky, showed Ms Boxer, more or less as before, with 45 per cent of voter support and Mr Fong with 43 per cent.

That same survey showed 61 per cent of voters saying policy would be the most important influence on their choice. Furthering the impression that the atmosphere of outrage in Washington had been slow to waft west, only 18 per cent cited character as the key determinant of their voting plans.

The mood may be changing, but there are still few signs of a rush to judgment in California. Dan Lungren, the Republican candidate for the governorship, last week said: "I think it would be good for the president to step down" – and left it at that. Mr Fong was even more circumspect last week when he said the president should "seriously consider" resigning if the perjury charges were true.

At this stage, analysts say, there is no reason for a more heavy-handed approach from Mr Fong, because the biggest threat to Ms Boxer's re-election is not Mr Clinton, but Ms Boxer herself.

Mr Fong was marked down long before the Clinton affair evolved into a crisis as one of the Republicans' best bets for completing a coup which would give the party 60 Senate seats. This magic majority – which requires the defeat of five sitting Democrats – represents the number required to prevent the filibuster tactics used to obstruct voting.

His campaign was assured of strong support at the outset when Republican strategists determined Ms Boxer, a liberal unmoderated by centrist tendencies elsewhere, was out of tune with the times. She was the only Democrat candidate in the June primary, yet attracted just 44 per cent of the vote. This performance tallied with consistently disappointing marks – always less than 50 per cent – in tests of her popularity and approval rating among the electorate.

The Los Angeles Times poll published on Monday suggested Mr Fong had taken a lead among voters considered most likely to vote.

Now, Mr Fong's chances are viewed even more optimistically by Washington Republicans. Ms Boxer is seen as especially closely associated with the president, in part because she is related by her daughter's marriage to Hillary Clinton's brother. She first entered the senate in 1992 – the so-called year of the women – when Bill Clinton himself was installed in the White House.

However, links apart, in her career since then she has paved a way which may prove to be an exit route from Washington. Ignoring suggestions that she should widen her appeal to the broader electorate, she has stuck firmly on the liberal wing, busying herself among San Francisco ideologues.

A feminist stalwart, she was prominent in the campaigns alleging sexual harassment by Clarence Thomas, a Republican nominee for the Supreme Court, and Senator Robert Packwood. But now she is judged not to have been stern enough in condemning Mr Clinton's own extramarital activities, and finds herself accused of hypocrisy.

Mr Fong, on the other hand, has not done much to further his cause. His campaign has been most remarkable for his apparent inarticulacy, shyness and amateurish demeanour.

Following a dreary performance in an early televised debate with Ms Boxer, he acknowledged his failings with a joke: he was keeping his charisma "in reserve".

He has not had an easy run so far, and had a tough time in the primary. But since then he has gained influential allies, such as Newt Gingrich, House speaker, who visited California to give his campaign an early boost.

Although his lack of zip is matched by an underweight campaigning budget, he can also expect ample financial support when the television advertising push – the only effective way of reaching the most populous state's scattered electorate – gets under way in the coming weeks.

But the neophyte's skills will face a direct test in San Francisco on October 12, when the combatants square off again on television. By then the pollsters should more have data to help him decide whether to bring up his charisma reserves. Events to date suggest he may win without them.

Brussels outlines its agenda for global trade talks

By Frances Williams in Geneva

Brussels yesterday laid out the European Union's stall for new global trade negotiations in 2000, saying it would press for a "truly comprehensive" trade round to be completed in about three years.

The US has been lukewarm about an international trade round, fearing that the EU's reluctance to move further on farm trade liberalisation could drag out the negotiations.

But speaking ahead of a special session today and tomorrow of the World Trade Organisation's general council, Peter Carl, deputy head of external trade at the European Commission, said only a broad-based agenda could capture the diverse interests of the WTO's 132 members, three-quarters of which are developing countries.

The meeting aims to launch preparations for the WTO's third ministerial conference, to be held in the US in late 1999, which will give the formal go-ahead for new trade talks.

Over the next year or so trade negotiators must hammer out an agenda and guidelines for how the talks should be conducted, on which there is currently no consensus.

Under existing WTO agreements, liberalisation talks are due to begin next year on agriculture and in 2000 on services. However, the European Union claims wide backing for the idea of a "millennium round", first proposed by Sir Leon Brittan, its trade commissioner, that would be more comprehensive.

Mr Carl yesterday stressed the need to negotiate cuts in industrial tariffs "without exceptions", international rules on investment and competition policy, and procedures for the easing of customs formalities and other hindrances to the transport of goods across borders. But he said that the list was not exhaustive and the Union was open to all suggestions.

Washington favours more of a sectoral approach to global trade talks, which would prevent agreement in one area from being held up by lack of accord in another. EU (and Japanese) resistance to agricultural trade liberalisation was one reason why the 1986-1994 Uruguay Round took so long.

Mr Carl also called for a "standstill" commitment by countries not to increase protectionism while negotiations were in progress.

He said yesterday he thought that, with proper preparation, the talks could be completed in about three years.

A trade round would also reduce the risk of backtracking on trade liberalisation as a result of protectionist pressures arising out the Asian crisis.

According to Mr Carl, EU exports to crisis-affected Asian countries dropped 30 per cent in Ecu terms in the first half of 1998, while imports from those countries rose 20 per cent.

● Groups opposing free trade and an international investment accord being negotiated at the Organisation for Economic Co-operation and Development in Paris yesterday demonstrated in front of the United Nations office in Geneva. They were protesting at what they claim is a "sell-out" by the UN to multinational corporations.

The demonstration was timed to coincide with a two-day conference in Geneva on globalisation, organised by the International Chamber of Commerce. The conference is being attended by business leaders and heads of international agencies.

Healthcare reforms hit Japan's prescription drugs market

By Jenny Luesby in London

A clampdown on drug prices by the Japanese government led to a 4 per cent contraction in the country's prescription drugs market in the year to June.

The mandatory price cuts, the biggest in 11 years, took effect in April, with the cost of 1,588 drugs reduced by an average 9.7 per cent.

The country's prescription drugs market contracted to $38.1bn in the 12 months to June, according to figures published by IMS Health, the healthcare information company.

Japan is the last of the world's leading drug markets to come under pressure from public healthcare reforms. Until now, Japanese doctors and hospitals have bought prescription drugs from wholesalers at a discount, but have been reimbursed at the full list price.

The Japan Medical Association argues that the difference between the market price and the list price, known as *yakkusa*, is an important source of income for hospitals – worth Y1,200bn ($9bn) in 1996, or Y5m for every doctor in the country.

But the government plans to eliminate *yakkusa* by 2000, with industry experts predicting another round of price cuts in April 1999 and the introduction of a reimbursement ceiling in 2000.

This is aimed at preventing doctors from maintaining their *yakkusa* income by prescribing more expensive drugs.

The price cuts are already transforming Japan's pharmaceutical industry. Foreign companies, which account for around a quarter of the country's prescription drugs market, have moved to rationalise their operations. Typical is Hoechst Marion Roussel, which has closed three of its six Japanese manufacturing sites and cut its workforce by 25 per cent.

However, the impact of the price cuts is likely to be more severe for Japan's domestic, fragmented pharmaceuticals industry. Of more than 100 domestic drugs companies, only 15 have sales of more than $1bn a year, and only two sell more than 20 per cent of their output overseas.

Analysts predict a wave of acquisitions and mergers among these companies.

Elsewhere, the US and Canada continued to report the strongest growth in prescription drugs sales of any of the world's 13 largest markets, IMS Health said.

For the first time, central nervous system (CNS) drugs, which affect the brain, became the largest therapeutic market in the US, overtaking cardiovascular drugs. Boosted by television advertising, CNS sales rose by 18 per cent in the year to June.

Genito-urinary prescriptions also rose sharply, up 17 per cent as a result of the rapid expansion in sales of Viagra, the anti-impotency drug.

World retail pharmacy purchases
12 months to June 1998

$m	US	Japan	Germany	France	Italy	UK	Brazil	Spain	Canada	Argentina	Mexico	Aust/NZ
Cardiovascular	13,292	7,182	3,498	3,572	1,981	1,600	1,000	1,122	1,034	598	250	613
Alimentary/Metabolism	11,201	6,502	2,322	2,043	1,298	1,474	1,122	782	663	820	584	482
Central Nervous System	14,399	2,374	1,746	1,852	989	1,364	857	759	757	498	373	379
Anti-infectives	7,051	4,537	1,282	1,599	1,121	495	789	511	293	405	645	193
Respiratory	7,124	2,463	1,382	1,246	696	1,174	711	523	393	295	382	335
Genito-urinary	4,720	813	857	785	446	450	604	196	229	230	202	115
Musculo-skeletal	2,818	2,587	949	855	478	444	561	241	182	241	271	78
Others	10,404	12,857	2,868	1,791	1,582	384	1,134	802	714	613	587	144
Total	70,807	39,095	14,358	13,508	8,589	8,036	6,758	4,836	4,258	3,410	3,194	2,588
% Change*	11	-4	1	4	5	5	2	11	13	5	23	9

Source: IMS Health

* Changes exclude currency movements

Eastern Europe's companies are forced to re-learn old trading tricks

Barter has given some exporters the edge. **Our International Staff** reports

The Russians "just stopped ordering overnight – we're down to zero deliveries," said Wieslaw Kolodziej, a Polish exporter of processed food.

He was speaking just before leaving for a trade fair in Kazakhstan, where he hoped to establish new contacts. Last year, Russia accounted for almost 90 per cent of the $1.5m worth of goods that Mr Kolodziej's company, Tema, sold to the former Soviet Union.

Tema is typical of the small businesses across eastern Europe forced to look for new markets, or new ways of doing business, ever since the latest financial crisis erupted in Russia last month.

Thousands have been pushed into bankruptcy. They range from furniture workshops in eastern Poland, to Hungarian food traders and Ukrainian sugar merchants.

Trade with Russia accounts for less than 10 per cent of trade in the region, excluding Ukraine, Belarus and the Baltic states. Nevertheless, there are individual businesses in all of the countries which are suffering.

Many of them operate in the "grey" market, beyond the reach of official statistics. Others are substantial trading companies. To survive, big companies and small have to learn new tricks, or re-learn the tricks of the past, such as barter and payment in advance for all shipments.

Mr Kolodziej has had a barter offer. "I sent off my jars full of food and got steel in return," he says. "Fortunately, I had a buyer lined up. There's a lot of building going on in Poland now," he explained. "Now someone wants to send me aluminium buckets."

Mr Kolodziej, who started his business five years ago in Lublin in eastern Poland, says his clients in Moscow, Ekaterinburg and St Petersburg are holding on to their stock.

"Their warehouses are full and they're waiting for prices to stabilise before they start selling again," he declared. Meanwhile, clients cannot get their banks to make payments – "and that doesn't help".

Istvan Temesfoi understands Mr Kolodziej's situation. As chief executive of Globus, a Hungarian canning company, he is usually selling tinned fruit and vegetables. But these are extraordinary times.

With a turnover of some $100m last year, Globus relies on the market of the Commonwealth of Independent States for 25 per cent of its sales. To keep sales up and 2,000 employees at work, Mr Temesfoi has turned to barter, gaining Russian building timber for his canned goods.

"It's very heavy. But while the rouble has no value, we must go back to barter," he said. He also hopes the Hungarian government can persuade Moscow to part with some oil and gas in exchange for his products.

Mr Temesfoi is optimistic about his chances of success in his quest for barter partners. But just in case nobody wants his wood, and Gazprom cannot be persuaded to take tinned peas, he has another barter item ready to offer – concrete.

About 1,000km to the east, companies in Kiev are well used to barter, which accounts for more commercial transactions than cash, according to some estimates.

Yevhen Nefedov, president of Ukragroexport, Ukraine's state-owned trading company dealing with agricultural goods, said: "The share of barter in our trade with Russia has grown dramatically.

'Of course we're used to a certain amount of barter deals with Russia, but now, these account for virtually all of our trade'

"Of course we are used to doing a certain amount of barter deals with Russia, but by now these account for virtually all of our trade."

Russian counter-parties pay primarily in oil products and gas: "One tonne of sugar is worth five tonnes of *mazut* [heavy fuel oil]," said Mr Nefedov.

Rather than being a hindrance to Ukraine-Russian trade, the new emphasis on barter gives Ukrainian exporters a competitive advantage because companies elsewhere are less accustomed to barter.

Companies in the industrial city of Dnepropetrovsk, near the Russian border, are also less disturbed than some of their counterparts further west.

One local banker said: "Many of the factories here have links with Russian businesses, but contracts have long been set in dollars or done on a barter basis, not in roubles."

The representative of a British trading company added: "We're making all exports on a cash-in-advance basis, and so far people here are putting up dollars."

Reporting by Christopher Bobinski in Warsaw, Kester Eddy in Budapest, Charles Clover in Kiev and Stefan Wagstyl, East European Editor, in London

Canada grain blocked in US

By Edward Alden in Toronto

Canadian livestock and grain shipments to several northern US states are being blocked or delayed as part of a campaign by those states against what they say are unfair Canadian trade practices.

South Dakota, North Dakota, Montana, Minnesota and Idaho are stopping all Canadian trucks carrying grain or livestock to inspect the shipments for compliance with food safety, truck weight and highway safety laws.

South Dakota is forcing trucks to turn back to Canada if they lack certification proving the shipments are free of six different drugs prohibited in the US.

The governors of the US states say stepped-up inspections are a direct response to Canadian testing requirements that hinder US grain and livestock exports to Canada.

They also claim that cheaper Canadian goods, aided by the weak Canadian dollar, are driving down US prices and hurting farmers in those states.

"This is clearly born out of frustration over fair trade," Ed Schafer, North Dakota governor, said yesterday.

Mark Mueller, a spokesman for South Dakota's Governor Bill Janklow, who initiated the campaign, said Canada required additional tests on US cattle exports and refused to recognise the equivalence of some US testing procedures. US swine also face mandatory quarantine periods in Canada.

But Canadian officials say the actions are politically driven by the governors, several of whom face re-election this autumn and wish to bolster support among farmers hit hard by depressed world prices for wheat and livestock.

They say several of the drugs being tested for by the US states are not even being used in Canada.

Lyle Vanclief, Canadian agriculture minister, warned that Canada might take the issue to dispute settlement under the North American Free Trade Agreement or the World Trade Organisation.

So far the actions have had minimal impact on Canadian exports. Little Canadian grain is currently being shipped south, and farmers have rerouted livestock exports from South Dakota to processors in other states.

The Canadian government has urged the US administration to intervene against the states, but a Canadian official acknowledged Washington "doesn't have a lot of control over the governors".

Tensions over agricultural trade have long been high between US border state farmers and their Canadian counterparts.

The US farmers argue that centralised Canadian marketing boards result in non-transparent pricing that allows Canada to undercut US farm prices.

INTEREST RATES UK POLICYMAKER SAYS COUNCIL MEMBERS COULD BE VULNERABLE TO NATIONAL POLITICAL PRESSURES

Warning on central euro-bank 'secrecy'

By Robert Chote, Economics Editor

The European Central Bank's independence from national political pressure is at risk if it insists on keeping the votes of its council members secret, according to a member of the monetary policy committee of the Bank of England, the UK central bank.

Willem Buiter, professor of international macro-economics at Cambridge University, argues in a letter in today's Financial Times that council members at the ECB should not be allowed to "to hide behind the cloak of confidentiality" when they vote to set interest rates for the euro area.

Prof Buiter's argument reflects a broad difference in approach to central bank transparency between continental Europe and the Anglo-Saxon economies.

It also highlights a political dilemma for Gordon Brown, the chancellor of the exchequer. Mr Brown favours joining the single currency, but when he reformed the Bank of England, he insisted on greater transparency than will be on offer at the ECB.

Otmar Issing, the ECB's chief economist, argued in the FT on Monday that "making individual members' voting behaviour public would encourage undesirable scrutiny of members' voting patterns". This would encourage external pressure on them.

Mr Issing believes the publication of voting records is forbidden by the terms of the Maastricht treaty that states: "The proceedings of the meetings shall be confidential. The governing council may decide to make the outcome of its deliberations public."

In evidence to the European parliament this year, Wim Duisenberg, the ECB president, argued that publishing the votes of the Bank of England's monetary policy committee members had been harmful. He said confirmation of splits on the committee "undeniably had an impact on markets. It has increased uncertainty".

But Prof Buiter believes that publishing the votes of individual council members will shield them from political pressure to vote in the interests of their home countries.

Council members are supposed to vote for what is appropriate for the euro area as a whole, even though most of them are governors of national central banks.

"Smoke-filled rooms and confidentiality are more likely to allow the ECB mandate and independence to be perverted by national political pressures than openness and ... the occasional short-term embarrassment that this entails," he argues.

He says the voting record should be considered as part of the outcome of the meetings, rather than their proceedings.

Regional Federal Reserve presidents in the US normally vote in the collective interest on the Federal open markets committee, but political pressure is likely to be stronger in the euro area.

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LEISURE JOINT OFFER POSSIBLE FOR CORAL

State body may bid for betting chain

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Stanley Leisure and the Tote, the state-owned betting operation, are among a number of potential bidders for the Coral betting shop chain following yesterday's confirmation by the Department of Trade and Industry that it had blocked a £363m ($598m) bid from Ladbroke.

The Tote and Stanley Leisure are examining making a joint offer for the 833 betting shops after Peter Mandelson, chief trade and industry minister, accepting recommendations by the Monopolies and Mergers Commission, said Coral should be sold as a single business.

This was to restore a third national chain after Ladbroke, the hotel and betting group, and William Hill, the betting shop chain acquired last year by Nomura, the Japanese bank.

But Mr Mandelson said he did not rule out the possibility of a sale "in more than one part if that seemed likely to lead to a more robust competitive environment".

The MMC blocked the merger because it said it would weaken price competition at a national level and would reduce consumers' choice of big betting shop chains.

Ladbroke's shares, which have lost one-third of their value over the past three months, closed 17¾p higher yesterday at 222p.

Mark Brumby, leisure analyst at ABN Amro, said the publication of the MMC report had removed uncertainty and the shares had been oversold. "The bounce is warranted though it leaves a Ladbroke with a hole strategically because the expansion of betting has been blocked."

Leonard Steinberg, chairman of Stanley Leisure, which has 475 betting shops, said yesterday the group would either bid on its own or possibly with the Tote for the Coral chain. "We would probably want to buy the whole business and sell off shops we did not want."

It is likely to face competition from private equity groups, such as Charterhouse, CVC and NatWest Ventures. Nomura is also thought to be interested but given yesterday's decision is likely to run into similar competition problems.

Peter George, chief executive of Ladbroke, said the company received "substantial" interest from prospective purchasers.

However, analysts doubted that, given the weakness in the market since January, it would be able to secure a higher price. It also emerged from the MMC report that Ladbroke had outbid by 15 per cent other bidders for Coral, including Nomura.

Comment, Page 23

Pressure grows for action on food group power

By Peggy Hollinger and David Wighton

Pressure is mounting on the government to crack down on the growing dominance of UK food retailers as they were yesterday accused of exploiting customers and suppliers.

A report commissioned by the Office of Fair Trading called for a full-scale inquiry into the retailers' power and profitability and warned against further consolidation.

The report itself stopped short of accusing supermarket chains of profiteering but Paul Dobson, an economist at Loughborough University and joint author of the study, said it clearly indicated that food retailers were squeezing suppliers without passing on gains to customers.

"Gross and net margins are rising which means they are basically getting better deals from suppliers and higher prices from customers," he said.

The dominance of the big four food retailers – who together control more than 60 per cent of supermarket sales – had created a lack of true competition, he said.

The OFT said yesterday the report did not represent official policy. But it is likely to be considered as part of the preliminary investigation launched in July into whether supermarket groups are abusing their market power.

Tesco, the UK's biggest food retailer, said the report was based on out-of-date information. "Margins have fallen in the last five years and we are much more competitive than we have been," the group said.

Safeway attacked the report as "merely fuelling some ill-founded claims being aired in certain media".

The government is likely to take the report's call for an inquiry seriously.

But one government member said even if there was a case to answer in food retailing it was less clear what could be done.

"The problem with the supermarkets is that they are often local monopolies which are protected by local planning restrictions. The only way to increase competition would be to allow the building of more supermarkets which would be very unpopular."

COMPANY REPORTING STRICTER CONTROLS INTRODUCED ON USE OF FINANCIAL INSTRUMENTS

Rules on disclosure of risk tightened

By Jim Kelly in London

Companies will for the first time have to disclose information about the risks they face using derivatives and other financial instruments, under rules published today by the Accounting Standards Board.

The move – forcing companies including the big banks to disclose details of loans, bonds, swaps, futures, forward contracts and options – marks a milestone in attempts to modernise financial reporting.

"This new standard shines a torch into a darkened room allowing users of accounts to understand the impact and significance of these instruments," said Sir David Tweedie, chairman of the ASB.

Paul Chisnall, a director of the British Banking Association, whose members will follow special rules laid down by the ASB, said: "This leap-frogs the kind of risk analysis required under international rules and puts us alongside the US."

The rules are a response to regulatory calls for tighter controls on financial instruments following a series of high-profile disasters led by the collapse of Barings in 1995 after losses incurred by a rogue trader.

The standard will be compulsory from early next year and lay the foundation for the ASB's long-term goal of requiring companies to account for gains and losses on financial instruments – possibly in a way which hits profits.

Official figures show big growth in the use of financial instruments with privately negotiated derivatives standing at more than $29,000bn worldwide at the end of 1997 – up 14 per cent on 1996.

Traditional accounts fail to capture all the risks associated with financial instruments while some derivatives – which have no initial cost – are not recorded at all unless they eventually result in big losses or gains.

In order to track and measure the risks associated with derivatives the new rules rely on markets to provide values for financial instruments rather than using traditional historical costs.

Companies will have to give a summary of the current values of the instruments they hold and show for the first time gains and losses on derivatives used as hedges – a device for managing risk – as they unwind over time.

Directors are also being asked to discuss what risks the company faces and in an audited narrative in the annual accounts say how they have used financial instruments to deal with volatility in exchange and interest rates.

Most large companies will be affected by the rules.

Blair to meet N Ireland leaders over arms

By John Murray Brown in Dublin and Jimmy Burns in London

Tony Blair, the UK prime minister, is to meet David Trimble, leader of the Ulster Unionist party, and Gerry Adams, president of Sinn Féin, in a bid to overcome the impasse over terrorist arms. The UUP is the biggest pro-British party in Northern Ireland; Sinn Féin is the political wing of the Irish Republican Army.

The meeting, during next week's annual conference of the governing Labour party, comes amid signs of a breakthrough in the dispute after a proposal from Irish ministers that the IRA should outline a timetable for decommissioning, as a way of reassuring sceptical unionists.

Officials say a key role could be played by John de Chastelain, the Canadian general appointed to oversee the handover of paramilitary arms. He is expected to make a statement in the next few weeks allowing the IRA to signal its intentions without having to be seen to respond directly to unionist demands.

Mr Blair's office cautioned against expecting an early resolution but a senior official said the Labour conference offered "a good opportunity to move things on".

Mr Trimble, the Northern Ireland first minister, gave the timetable idea a guarded welcome. He said there had to be a "credible start" to the process before his party would take its seats in an executive with Sinn Féin.

But Mr Adams accused Mr Trimble of reneging on the agreement by toughening demands for decommissioning. "The man has actually moved back to before the Good Friday agreement. I've told Mr Trimble that I consider this to be a very serious development indeed," Mr Adams said.

His comments underline the pressure now being put on Sinn Féin for progress on the arms issue.

Bertie Ahern, prime minister of the Irish republic, said it was "a fair question when will it all start. We know when it has to finish".

The diplomatic activity – with evidence the two governments are co-ordinating their public statements – underlines the concern in Dublin and London that the row could threaten the timing of the implementation of the agreement.

The agreement does not require any decommissioning as a precondition for a party's entry to the executive but an Irish official said yesterday it was "a political reality" that without some progress from the IRA Mr Trimble's position in the UUP would become unstainable.

Any decision on the make-up of the executive is likely to have to wait until Mr Trimble and Seamus Mallon, the nationalist deputy first minister, return from a US tour next month.

NEWS DIGEST

STATE HEALTH SERVICE

Ministers launch $1.6bn 'telemedicine revolution'

The government will today launch a seven-year £1bn ($1.6bn) IT revolution in the state health service, intended to make "telemedicine" routine. It will allow the electronic exchange of patient records and results and make possible the online booking of hospital appointments. Family doctors will be linked to hospitals and pharmacies, allowing online prescribing of medicines and emergency access to records. Initial cash for the programme will come from the £5bn that has been earmarked by the government for the development of the National Health Service over the next three years. Treasury insistence that all IT orders of more than £1m must be cleared with it has seen orders dry up, outdated systems installed and a string of big IT companies – such as ICL, Andersen and Digital – quitting the NHS market, leaving only US companies and a few smaller UK groups such as System C. Ministers hope to tempt some of the big companies back into the market. **Nicholas Timmins, London**

RABIES

Changes likely to precautions

Changes to the UK's anti-rabies quarantine regulations are likely following the publication of a report from a government advisory group. The report recommended ending the quarantine system, which involves dogs and cats entering the country remaining in isolation kennels for six months if they are vaccinated and enter from the EU and other rabies-free areas such as Australia and New Zealand. Nick Brown, agriculture minister, yesterday opened a consultation period on the report, running until the end of the year, but said, "the government starts with a predisposition to move in the direction of the recommendations".

He said the government's concern was not to jeopardise the UK's rabies-free status. Chris Dye, an epidemiologist on the advisory group, said risk-assessment calculations showed "there would be no significant difference in risk" from the new system, which would involve a limited number of designated points of entry. Animals would be individually checked. **Maggie Urry, London**

WATER INDUSTRY REGULATION

Company shares fall 3%

Water customers ought to see a real price cut of at least 10 per cent in annual bills in the year 2000, John Prescott, deputy prime minister, said as he announced a five-year programme of water quality and environmental improvements expected to cost up to £8.5bn ($14bn). He said this would leave room for the industry regulator to impose a substantial price cut. His comments that heavy capital expenditure and tighter regulatory price controls ought to "stem excessive dividend payments and directors' remunerations" prompted water company share prices to fall by almost 3 per cent yesterday. Mr Prescott, who has been highly critical of big pay increases awarded to some water company directors, said he saw no reason why a 10 per cent price reduction "should not be achievable".

Michael Meecher, environment minister, said yesterday that price limits set by the regulator for 1995-2000 had been too generous, leading to a "bonanza" for shareholders and directors. **Andrew Taylor, London**

THE ARTS

Opera gets $7m to pay deficit

The English National Opera is to receive £4.7m ($7.7m) from the Arts Council of England in National Lottery money so it can pay off its £2.3m deficit and build up its artistic programme and audiences. This is on top of the £4.5m awarded to the ENO last year to help improve its London home at the Coliseum. Peter Hewitt, chief executive of the Arts Council, said yesterday that the money was a "commitment to the company under its inspired new management" of Nicholas Payne, former opera chief at Covent Garden, and Paul Daniel, music director. The Council is keen to bolster one of London's two big opera companies while the other, the Royal Opera House Covent Garden, still labours under financial and managerial difficulties. **Antony Thorncroft, London**

BSE INQUIRY

Papers reveal rule breaches

Papers made available to the public inquiry into BSE – "mad-cow" disease – reveal serious breaches of vital regulations designed to protect human health well into the 1990s. They show top-level concern about what one agriculture ministry veterinarian described as "widespread and flagrant" breaches of the ban on "specified bovine offals" entering human food and animal feeds – introduced in 1989. A memo to Douglas Hogg, the then agriculture minister, in July 1995, said "the unsatisfactory treatment of specified bovine offal in slaughterhouses reflects an unfortunate state of affairs which has presumably existed for many years. We must expect questions on why we allowed this situation to persist for so long". It goes on to say that it was "vital" the health department agreed that there "is no risk to human health". **Maggie Urry, London**

Labour party 'paranoid' over Scotland poll

By Andrew Parker, Political Correspondent

Alex Salmond, Scottish National party leader, yesterday insisted the party would not seek to wreck the planned Scottish parliament, as he accused the governing Labour party of being driven by paranoia and fear.

On the opening day of the SNP annual conference in Inverness, Mr Salmond signalled the party was preparing for a long haul towards realising its goal of Scottish independence. With Labour and the SNP neck-and-neck in opinion polls, Mr Salmond sought to reassure voters by promising a "positive agenda" for the devolved parliament.

But his upbeat message was blunted after Tulloch, the biggest company in Inverness, warned it could move to England if the SNP wins next May's devolution elections because of the possibility of higher taxes.

John Swinney, SNP Treasury spokesman, said the party might propose using the Scottish parliament's power to raise the basic rate of income tax to finance a cut in business rates for small companies. Alternatively, big companies could have their rates increased, to reduce the burden on small firms.

● Scotland's growth rate is slowing although its economy will not necessarily go into recession, according to a survey by Strathclyde University, **Brian Groom writes.**

It warns that 20,000 jobs are likely to be lost over the next three years, reversing employment gains of 14,000 last year. The survey says growth in gross domestic product will slow from 3.43 per cent last year to 2.13 per cent this year.

This summer saw job losses including 1,000 at Viasystems, a US circuit-board manufacturer, 720 at Dawson, the textiles group, 500 at Compaq, the US computer company, and 370 at Lite-On, a Taiwanese computer monitor maker.

Upbeat: Alex Salmond speaking to the SNP yesterday

Nationalists insist they can afford to go it alone

Andrew Parker finds corporate taxation and the single European currency at the heart of policies advocating independence

Never before has so much attention been given to the Scottish National party, which began its annual conference in Inverness yesterday.

The first elections to the Scottish parliament are just eight months away and the SNP is running neck-and-neck with the governing Labour party in a battle for control. Scotland could be independent by 2000 if the SNP wins.

But a sign of the SNP's nervousness at the prospect of power came in May when a raft of policy statements – outlining costly spending commitments – were wiped off the party's internet site.

Many policies in the SNP manifesto for last year's national election are being dumped. The party leadership will ask the conference to abandon a "short-term" plan to renationalise Railtrack, the privatised owner of the national rail infrastructure.

Other policies under review include a proposal to increase the value of grants to university students.

Towards the Scottish Parliament, the SNP's statement of "policy intentions" published this month, contains few spending commitments.

Much of the language in the document is similar to that of Tony Blair, the prime minister. Its key themes are "enterprise, compassion and democracy".

But the SNP will propose in its manifesto next spring that high earners pay more tax. Last year's manifesto said the ceiling on National Insurance contributions – effectively a tax on employers and employees to pay for insurance-based welfare benefits – would be removed to raise an extra £1bn over four years. The leadership is also against promising to use the new parliament's power to raise the basic rate of income tax by up to 3p in the pound.

To persuade Scots that they can afford to go it alone, the manifesto is expected to pledge to bolster the Scottish economy by cutting corporation tax and taking Scotland into the European single currency as soon as practicable.

A separate Scottish currency might not last long at the hands of the speculators but the SNP says it would be pegged to sterling. The party has pledged to hold a referendum on the single currency.

"Our view is that subject to the decision of the Scottish people, we should take the decision on principle as quickly as possible, and then stand ready to move into the single currency area when the opportunity arises," says Alex Salmond, the SNP leader.

Michael Saunders, an economist at Salomon Smith Barney, calculates that Scotland could meet the Maastricht criteria for the single currency if it can command a significant proportion of North Sea oil revenues.

In the most recent analysis by the government's Scottish Office, which admits "imprecision", Scotland had a deficit of £7.4bn ($12.2bn) or 12.5 per cent of gross domestic product in 1995-96. Mr Saunders, producing estimates for 1997-98, says that there is an implied deficit of 3-4 per cent of GDP if Scotland received 67-90 per cent of the oil revenues.

Mr Salmond, who believes Scotland is more disposed to the euro than other parts of the UK, uses the economy of the Republic of Ireland to buttress his argument that an independent Scotland can prosper. The Irish economy is set to grow by 7 per cent this year, with a corporation tax rate of 10 per cent for manufacturing. Mr Salmond promises a "significantly lower rate" to the planned UK level of 30 per cent, and has seized on the support of Arthur Laffer, former adviser to Ronald Reagan, to claim that a cut in taxes can deliver more revenues.

But the Scottish branch of the Confederation of British Industry, the employers' lobby, has criticised Mr Salmond's proposal. The Irish central bank has also questioned whether the Irish experience can be reproduced in Scotland.

Privately, senior SNP figures admit Labour is likely to emerge as the biggest party after next May's elections and form an administration with the Liberal Democrats, the pro-European opposition party.

By the time of the 2003 elections, the UK may have joined the single currency, removing the necessity of separate notes and coins in an independent Scotland. The case for going it alone would then be that much more attractive, although a global slump could undermine the whole SNP project.

MANAGEMENT & TECHNOLOGY

INTERVIEW CARL MICHEL, DEUTSCHE BA

Pilot in a European dogfight

Deutsche BA's air wars champion has more things on his mind than the bottom line, finds **Graham Bowley**

Most executives spend their day fretting about the bottom line. But the man in the middle of the fierce contest between British Airways and Lufthansa is not worried principally about making profits, or even winning huge market share.

"I am relaxed. The share is not the key thing," says Carl Michel, who runs Deutsche BA, the British carrier's young German airline.

Instead, his job is to be a thorn in the side of Jürgen Weber, Lufthansa's chief. And he is enjoying some success. Deutsche BA's presence is an important reason why Lufthansa is making losses on its domestic routes – a fact that annoys Mr Weber immensely, and must cheer BA back in London.

Mr Michel recently fought a nasty price war with Lufthansa, although eventually he was forced to withdraw from BA's Frankfurt to Munich route despite appeals for Brussels to intervene. "They threatened to go to zero D-Marks," he says.

"Lufthansa can still make life difficult for us but it does not change my strategic position. If BA sees it's a price war, they will let me off a bit," he said, highlighting the degree to which the bottom line is not the guiding light of Deutsche BA's business. "It would be different if I wasn't meeting targets for other reasons."

Deutsche BA is now Germany's second-biggest domestic carrier after Lufthansa. It was launched in 1992, at first as a joint venture between BA and three German banks – Commerzbank, Bayerische Vereinsbank and Berliner Bank. BA wanted to take advantage of the liberalisation of the European air market, completed last year, which allows carriers from one EU country to launch domestic services in another.

But by April, all three banks had sold their stakes to BA. They contend that the sale was routine but observers say things were going so badly at the airline that the banks could not get to the door fast enough.

Mr Michel does not appear to care too much. "It is an operation that will never be stunningly profitable. Domestic operations for all airlines are uninteresting economically. We do it because we have network benefits. It helps BA's presence in Germany quite significantly," he explains.

"We can get these passengers to feed across to the UK and elsewhere in Europe. Then we start to achieve something quite important and powerful."

At 35, Mr Michel is young to be fighting these air wars, especially in Germany where many people of his age are still finishing their studies. He joined BA in 1995, after working for McKinsey, the management consultants, in London. He was promoted to head Deutsche BA in April last year. The airline now has about 800 staff, with 1,000-2,000 more in services that have been outsourced.

Carl Michel: 'It is an operation that will never be stunningly successful' A. Hampel

His strategy has been to focus on Germany's busiest routes. Germany is "not a big country, and there are good rail and road links. About 16m people travel annually in Germany, two-thirds of the French market," he says.

But there are 10 German routes with more than 500,000 passengers a year "and we are on seven of them". Deutsche has a 14 per cent share of the German market, and a 38 per cent share of the routes it operates.

Germany's export boom has increased business travel on international flights. Internal air traffic is slowly picking up with the German economy.

Yet Deutsche BA is still not making profits. "We are not so far away. We will make a modest loss this year. It is not very big. It is quite sensible. We will break even in 1999-2000," he says.

Profits may come sooner if the euro strengthens against the dollar. "About $100m, a quarter of my costs, are in dollars because of aircraft leasing and fuel. The exchange costs that I bear are almost unique, whereas Lufthansa will be balanced out by the dollar income they get. I don't get that because I don't fly to America," he says.

Despite the rivalry, he admires Lufthansa. The German carrier is doing better in its home market than it would otherwise be doing because it has franchised some loss-making services to smaller local airlines. It is also feeding more passengers into its main Frankfurt hub and on to its lucrative intercontinental flights.

But he does not believe Lufthansa has tackled its high costs, despite claims made by Mr Weber that the German airline is more streamlined and efficient than it was. As in many big German companies, unions still hold sway and Lufthansa's costs are among the world's highest. (Deutsche BA has no big unions so it does not face Lufthansa's protracted and expensive wage negotiations.)

"They are an act to follow, they have the wind behind them. But their costs have not been tackled," says Mr Michel.

'They [Lufthansa] are an act to follow, they have the wind behind them. But their costs have not been tackled'

He does not believe that Lufthansa's domestic business will be profitable soon. "Our costs are 20 per cent below Lufthansa's and we are still losing money."

What next? That depends on the British parent. "At some point BA will have to develop a third hub. It could be in the UK, Manchester, it could be in Europe, in Berlin. When that becomes clearer, then we will feed that hub. There is a waiting game – where will BA go next?"

MANAGEMENT BOOK REVIEW

Carrying on in a conflicting climate

MANAGING OUTSIDE PRESSURE: strategies for preventing corporate disasters

Matthias Winter and Ulrich Steger

£19.99

Pub: John Wiley & Sons

It is the stuff of managers' nightmares. Without warning, a company becomes the target of an environmental or social pressure group. Caught off guard, it puts up a weak defence and the campaign gathers momentum. Within weeks, the company is forced to withdraw from the project, its reputation in tatters.

As activist groups become more prominent and sophisticated, companies that operate in sensitive regions or business areas have become increasingly vulnerable.

For managers, it has become crucially important to predict the demands of outside pressure groups. The difficulty lies in detecting the particular issue that will blow up into a public relations disaster.

Take the Royal Dutch/Shell group. It was taken off guard by the issue that shattered its reputation: the decision to sink the Brent Spar oil platform in the North Atlantic in 1995, which it cancelled after a high profile campaign by Greenpeace.

Could Shell have anticipated – and avoided – the episode? Yes, according to *Managing Outside Pressure*.

Its authors – Matthias Winter from McKinsey, the consultancy, and Ulrich Steger from IMD, the Lausanne-based business school – are highly critical of the way companies evaluate potential conflicts.

They argue that companies are so often surprised by controversies because they tend to focus purely on "rational" scientific or technical criteria. There are, they learn to their cost, usually several different ways of looking at an issue.

The book describes a checklist of eight questions that companies should use to screen potentially contentious issues. For a start, it should ask whether the arguments against the issue are plausible. Managers should beware labelling activist demands as irrational from the beginning. That limits their ability to gain additional insights and to understand public concerns, the authors argue.

Similarly, companies should ask themselves whether the issue evokes emotion. "People become excited about things that they can see, understand and love or hate," say the authors.

Is the issue going to be picked up by the media? For an issue to capture widespread coverage, it will need to be novel, extraordinary and happening in a place reasonably accessible to reporters.

Are there connections to other issues that have affected the company or other similar companies?

How isolated is the company? Activists prefer not to attack entire industries. Even though the ownership of Brent Spar was a joint venture between Shell and Exxon, Greenpeace levelled its criticism solely at Shell, so isolating its opponent.

Activist groups prefer to target companies whose position within the industry is already exposed. After the Exxon Valdez accident, Exxon was the preferred target of environmental groups until the Brent Spar incident. Then Shell became the scapegoat of the oil industry, not least because weeks later the Nigerian government hanged Ken Saro-Wiwa, the human rights and environmental activist. Shell accounts for about half of Nigeria's 2.18m barrels of oil a day.

Other questions include the strength of the activist group that is likely to target the company, how far the crisis has evolved and how easy it would be to find an alternative solution to the problem.

If there is significant risk of confrontation it does not mean that the company should not go ahead with the project. But it does mean that it should make contingency plans in case it does run into strong opposition.

The authors advise companies to try to influence public opinion, create some understanding of the issue and move beyond the traditional adversarial stance.

Companies should also be aware that their image can be damaged by their reactions and behaviour during the campaign.

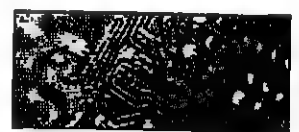
The message of this book may be depressing to managers who think facts rather than emotions should determine difficult decisions.

However, the authors argue that skilful anticipation and management of contentious issues can benefit both company and activist.

The point, they say, is that in pluralistic societies people have different values, interests, perceptions and attitudes to risk. To some extent, conflicts are inevitable. The value of this book is that it should help managers handle these conflicts more professionally.

Vanessa Houlder

Available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK



TECHNOLOGY WORTH WATCHING

Wealth of opportunity emerges from a root system

Plants have long been used as a source of valuable materials – examples range from frankincense, myrrh and opium, to modern-day anti-cancer agents such as taxol. With modern technologies, even vaccines can be produced in plants such as bananas and potatoes, *writes William Macdonald.*

Yet large-scale collection of plants and the subsequent extraction of compounds is often economically unfeasible and chemical synthesis of these compounds can be extremely difficult.

A New Jersey-based company, Photosynthetic Harvest (PH), is pioneering an new approach to producing chemicals that exploits a plant's roots.

"Most plant research has studied what we can see – flowers, leaves, stems – but there is a tremendous amount of biomass under the earth which we don't normally look at," says Ira Pastor, PH's director of marketing. For example, a two-and-a-half acre field of rye can have 300m miles of root system.

PH has patented a process called Rhizosecretion, developed at Rutgers University, New Jersey, in the laboratory of Professor Ilya Raskin. The process takes advantage of the ability of plants, grown in water in greenhouses, to synthesise and to secrete large quantities of unique, bioactive compounds in their roots.

Plant roots exist in intimate contact with a hostile environment, where they are continually exposed to potential invaders such as bacteria, fungi, viruses, insects and the roots of other plants, as well as physical and environmental stresses. Unlike other parts of the plant that have hard, protective surfaces, roots – of necessity – must be easily permeable.

Roots have developed a defence method by which they produce chemicals in response to different stresses. The Rhizosecretion process exploits this ability. "We are basically using a mechanism which plants have evolved over 1bn years," says Mr Pastor.

The roots are challenged with a chemical "elicitor" and encouraged to produce a range of between 5 and 15 chemicals in their defence. When a plant that produces the desired chemical has been identified, it is a simple matter to produce it on a large scale. The chemical is easily isolated from the water that is circulated around the roots or the roots are "shaved" on a continuous basis and the chemical isolated from the biomass is removed.

The plant's roots are effectively milked to produce the chemical, says Mr Pastor. "We believe in looking at the plant like a cow," he says.

In one example, the elicitation process has been used to produce a chemical antibacterial for a water treatment company to deal with a type of troublesome bacteria.

Currently, PH's main business is in producing chemical libraries for agrochemical and pharmaceutical companies that are looking for novel compounds to screen as potential drugs or crop protection agents.

IN BRIEF

Cannabis yields up secrets of pain-relief

Medical researchers are showing increased interest in the pain-killing properties of cannabis in the treatment of certain diseases. But the drug – and the cannabinoids, its active constituents – remain controversial, partly because so little is known about the way they work.

A report in today's Nature, the international science journal, provides further evidence that cannabinoids reduce pain and sheds some light on their mechanism.

According to researchers at the University of California, San Francisco "cannabinoids are indeed centrally acting analgesics with a new mechanism of action". They found that although morphine and cannabinoids work in different ways, the same circuit of the brain is involved in their pain-suppressing role.

Cannabinoids may be useful in improving the treatment of pain because of their unique side-effects, say the researchers.

For example, opioid drugs may cause nausea, but cannabinoids can increase a patient's appetite.

University of California, San Francisco: US, tel 4154769624; e-mail ldmeng@phy.ucsf.edu

Now you're talking

One promise of video technology is that it will reduce the need for business travel. An international conference next Monday is designed to show that videoconferencing is already a viable alternative to bringing together delegates in the same place.

The conference, the first videoconference run on a commercial basis, will link 600 people from 45 companies across Europe and the US.

The conference – on business ethics and climate change – is co-ordinated by BT, which will change the videopicture transmitted to each location to show the person speaking.

Tomorrow Publishing: Sweden, tel 468335290 www.tomorrow-web.com/exchange/exform.html

Fusion puts waste to work

A device that converts waste to useful byproducts such as fuel and glass has been developed as a spin-off from basic research on fusion carried out at MIT.

The machine, called a Plasma Enhanced Melter, uses two heating processes: plasma heating, which breaks the chemical bonds of waste material, and joule heating, which turns waste into glass.

The plasma heating turns organic materials into hydrogen-rich gases which can be converted to fuels like methanol. The joule heating process turns inorganics into recoverable metals and glass.

Integrated Environmental Technologies, a company led by MIT researchers, which produces the machine, says that because the process takes place in the absence of oxygen, and at high temperatures, the waste products are environmentally friendly and can be recycled.

Massachusetts Institute of Technology: US, tel 6172532700; http://web.mit.edu/

Light thrown on a subject

A device for brightening up dark basements is being developed at the University of Nottingham. It has come up with a way of using mirrors to channel natural light into the gloomy recesses of a house or office.

It has developed a "sunpipe", which consists of aluminium tubes, lined with reflective material, that act as a series of mirrors. These can channel rays from the sun – and even from the moon – into a gloomy room.

University of Nottingham: UK, tel (0)115 9515798; fax (0)115 9515733

Vanessa Houlder

CINEMA

Laugh, and be damned

Have your custard pie and eat it, says **Martin Hoyle**

There's Something About Mary arrives on these shores with its distastefulness and incorrectness, political and otherwise, already raucously proclaimed. Mostly guilty as accused; but I wonder if the practices and attitudes of the most powerful man in the world, currently obsessing the western media, have blunted our sensibilities. There is, in *TSAM*, a joke about sperm that first startled me and then, as it became a running (sorry!) gag, caused me to laugh incredulously at its unabashed grossness. Ealing comedy it isn't; but every so often the sheer crassness of the Farrelly brothers' (of *Dumb and Dumber* fame, if that's the word) ambushes you into shamefaced pleasure.

THERE'S SOMETHING ABOUT MARY
Peter and Bobby Farrelly

SECRET DEFENSE
Jacques Rivette

CUBE
Vincenzo Natali

DEEP RISING
Stephen Sommer

THURSDAY
Skip Woods

And quite a few of the jokes are at the expense of crassness. The seedy private eye trying to ingratiate himself with the lovely, do-gooding Mary and her mentally handicapped brother, blunders his way through references to mongols, putting retards on a leash instead of caging them, flailing pachydermously over our sensitivity, is meant to be hilariously repellant. We laugh at his obtuseness, not with it.

By this time we have seen Ted, an amiable nerd, teeth glittering with the dull gleam of metal braces, catch himself agonisingly in his zip fly, thus ruining his chance to take the coveted Mary to the senior prom. Thirteen years later, still pining for the lost love of his life, he hires a sleazy gumshoe to track her down. Predictably, the detective falls for her himself.

Mary's admirers include a crippled English architect, hobbling painfully around on crutches. Her neighbour is a bedizened phone-tapping beldam with a Florida tan that would make a bar of chocolate look anaemic, and a bad-tempered dog. And besides being two Mickeys short of a Disneyland (you see how catching it is), Mary's brother is large and given to violence if anyone approaches his ears.

The grounds for offence are abundant, fertile and richly composted. And in honesty, some sequences are very funny, starting with the small-town sensation of the zipper accident. Later the detective realises the dog he drugged into acquiescence is dead, and frantically tries to resuscitate the pooch while concealing the fact from its adoring owner; his increasingly wild tactics include massage, kiss of life, and electric shock treatment until the furry corpse bursts into flames... Dog-lovers, be reassured: there is a happy ending.

The surprising thing about *Mary* is ultimately its old-fashioned morality. The iconoclasm is carefully calculated, the film's centre is soft. It runs out of impetus before the end, but the feel-good factor is enhanced by the triumph of the right values. You can have your custard pie and eat it.

Ben Stiller is a lovable Ted, Cameron Diaz the epitome of radiant desirability as Mary. Matt Dillon continues his progress to character actor from juve lead: to be applauded, though his touch as the spiv tec is a trifle heavy-handed. Our own Lee Evans is the hobbling architect with a surprisingly forced English accent – until another plot twist reveals the cleverness of it...

★

I dealt with Jacques Rivette's *Secret Défense* from Edinburgh. It has lost nothing, *hélas*, on its trip south. It still weighs in at nearly three hours of sub-Hitchcockian mystery languidly picked over in garrulously sulky Gallic tones.

The French have a vice, which would make even an American president blush, that they indulge in over bed and board, in public and private, at home and workplace. There is an ugly little four-letter word for this activity. It is "talk".

The faintly paranoic brother of Sylvie (Sandrine Bonnaire) claims their father was murdered by his business partner. Sylvie inadvertently kills the boss's secretary. Being French, she addresses the moral and practical problems thus posed by tucking into rabbit and prunes. The dead girl's sister visits the boss in search of her missing sibling. Being French, he promptly takes her to bed. There is much travelling by train.

Is this an attempt at Hitchcockian tension, sowing unease with the odd detail that mars the otherwise normal? But the camera never pulls away to reveal the train crop-spraying where there are no crops, or smothered with suddenly assembling birds, or discharging a nun in suspicious high heels. Pas de chance! As the wartime slogan had it, is your journey really necessary?

Take elements from *Huis Clos* and TV's *The Prisoner*, set them in a moving Rubik cube where the incarcerated can escape only through the right alignment of cells and you get *Cube*. Vincenzo Natali's futuristic nail-biter is an example of the Canadian gift, established long before the American *X-Files* was farmed out north of the border, for darkly ominous angst-ridden menace. Some of the dialogue is trite, almost risible in its bathos, the situation and characterisation predictable (tensions between these diverse strangers, including embryonic fascist cop, idealistic woman doctor and self-loathing cynic).

But the set is dazzling: cube rooms panelled with the dehumanised elegance of computer circuit designs, trapdoors in each wall, floor and ceiling, some leading to lethal booby traps; and at the edge of the giant cube itself, a dark chasm. There are genuine clammy-palm moments. Those whose nightmares run on claustrophobia or heights will emerge shaken, stirred and cubed.

A similar charcuterie awaits the passengers on a luxury cruise liner in *Deep Rising*. Cue much post-*Titanic* flooding, screaming and surging. Cue also Treat Williams, a mercenary skipper called Finnegan, or possibly Mulligan, unwittingly hiring his boat to piratical thugs (including Jason Flemyng as Mulligan, or possibly Finnegan, whose cockney accent reflects no credit on LAMDA) out to sink the liner. Something pre-empts them: the ship is a shambles, bloody and deserted, except for a lovely full-bosomed international jewel thief (female). A potentially rattling good yarn is let down by general noise, confusion, misguided humour and some over-familiar gore. When finally visible, the monsters are impressive, and the slime-covered semi-digested victim, disgorged to gibber through his half-eaten head represents the best of popular entertainment.

Skip Woods both wrote and directed *Thursday*. As if Quentin Tarantino had made Agnes Varda's *Cléo de cinq à sept*, the film takes us through a momentous day for Casey, as his past catches up with him. His rise from drug dealer, casually massacring his contacts, to respected architect with the trappings of suburban respectability, in three years flat suggests that America is the land of opportunity gone berserk. Casey is visited successively by an old comrade-in-crime; a bloodthirsty sexpot who ravishes our unwilling hero; a sadist wielding a chainsaw and blowtorch; and Mickey Rourke as a corrupt cop. Gothic.

Crassness crossed with old-fashioned morality: Cameron Diaz as the lovely do-gooder in 'The Trouble With Mary'

Hot date with a dream cast

THEATRE

SARAH HEMMING

The Blue Room
Donmar Warehouse, London WC2

On stage Arthur Schnitzler's *La Ronde* can prove a disappointment. Like the sexual encounters it portrays, it promises much but delivers rather less. A daisy chain of affairs, with one partner from each union moving on to the next, it eventually feels repetitive, and since each one-night stand is tinged with contempt, it rolls like a snowball into a major bout of post-coital regret. Sour rather than steamy.

At the Donmar Warehouse, Sam Mendes has mounted a brilliant counterattack to the play's drawbacks. First, his script is a new version by David Hare that is not just updated but upbeat. Hare doesn't shy away from the emptiness of the concept, but makes it a point: his characters are on a sort of learning curve, which, though littered with painful mistakes, is worth pursuing.

Second, and far more importantly for the world at large, he has cast two gorgeous creatures – Nicole Kidman and Iain Glen – to play all the parts, with Kidman bringing all the heady aura of Hollywood stardom to the tiny stage. For a play about erotic charge this is a smart move – the mood of the first-night audience was a mass version of the giddy anticipation with which one approaches a hot date.

Hare's play replaces chambermaids and soldiers with au pairs and cabbies, but the shape is still the same: up and down the social ladder we go, with people lusting and fumbling and often wishing they hadn't.

Hare is very funny on the messy side of sex and clumsy side of seduction. Mendes's observant production introduces plenty of droll touches (the hopeful student slipping first one, then two condoms beneath his pillow) and one wonderful coup: as each coupling takes place, a number of minutes (or in one case seconds) flashes up above the screen. It is noticeable, incidentally, that the playwright character clocks up quite a good rate.

But although the tone is comic, Hare craftily introduces a wistful note. Mark Thompson's set catches this ambivalent tone perfectly: a blue iridescent room that is suggestive of dreamy longing and desire, but also, whenever the couples make contact, buzzes in a manner uncomfortably reminiscent of an insect-o-cuter.

Nicole Kidman has a delicate, lovely beauty that makes her instantly vulnerable on stage. As the female characters tend to be the more fragile – even when seducing – this is a strength. She doesn't seem completely at ease yet on the stage, or entirely comfortable with some of her characters – there's a certain sameness about them. But she can be unexpectedly funny and has enormous charm.

Iain Glen meanwhile, turns in a cracker of a performance, both wonderfully charismatic and delightfully funny, as he slithers from one plausible liar to another. They are both very good at being gawky and awkward together. What they don't always suggest strongly enough is a palpable sense of mutual desire. What they do achieve is to make the accumulation of their characters unexpectedly poignant.

For all the wit and insight of the script and the production, the play still cheats you in the end. But it's very seductive while it lasts.

Seductive – and fun: Nicole Kidman on the small stage Alastair Muir

MUSIC IN ROTTERDAM GERGIEV FESTIVAL

True romantic of his generation

It is unlikely the city of Rotterdam has ever made a better investment. In 1988, when Valery Gergiev made his first appearance with the Rotterdam Philharmonic Orchestra, he was a young Russian conductor little known in the west.

Now, 10 years later, Gergiev's stock has risen to unforseen heights and he is one of the most sought-after conductors in the world. The Rotterdam Philharmonic is justly proud of how he has stayed loyal, but nobody would dare claim to have chained the whirlwind Gergiev down. Even last week, he still found time to pop across the Channel for a concert with the London Philharmonic.

That was in the middle of this year's "Gergiev Festival", now in its third year, when the whole idea of the festival is to show an omnipresent Gergiev conducting an exhausting week-long programme of concerts and operas.

The only way of lightening the burden a little would be to schedule music with which the conductor and the Rotterdam Philharmonic are already familiar and that may account for the high standard of workmanship at the first of their concerts in this year's festival. Performances with Gergiev invariably exhibit a high degree of spontaneity; when that comes with a proper attention to detail the results can be impressive indeed.

There was no soloist in last Friday's concert, so the spotlight was entirely on Gergiev and the orchestra. They began with a performance of the Overture to *Don Giovanni*, played with a full quota of strings, that turned the clock back to the romantic Mozart style of more than a quarter-of-a-century ago; and then, staying with the same anti-hero, they followed that with a rich and glowing account of Strauss's *Don Juan* that came out of much the same mould.

As we hear more of Gergiev outside the Russian repertoire, it becomes increasingly clear that he is the true romantic of his generation, a musician who wants to make the most of the full and warm sound of a traditional orchestra, and therefore very different from the restlessly inventive Rattle or the brilliant Salonen. His performance of Berlioz's *Symphonie fantastique* was one of the most spacious I have heard for years. It worked, firstly because Gergiev has an innate command of large-scale structures, and secondly, thanks to the superb playing of the Rotterdam musicians with their splendidly deep string sound and big-boned brass: this is a first-rate orchestra in its own right.

Unfortunately, the festival opera – a new production of Puccini's *Manon Lescaut* – was another matter. The second performance of the opera at the Schouwberg in Rotterdam on Saturday sounded under-rehearsed, with the singers and orchestra often pulling apart. Gergiev also encouraged the orchestra to play far too loudly in this medium-sized hall, leaving the singers to struggle – a high price to pay for the unbuttoned passion he brought to the music.

This had a knock-on effect on Galina Gorchakova, who might have shown a much hoped-for return to form in the title role, if she had been given an easier time of it. As it was, she sounded tired at the beginning, and only attained a real ease of voice production in the last act. Still, this Manon Lescaut had no problems with intonation and her powerful and beautiful soprano voice seemed to be under renewed control.

It was nobody's fault that the tenor was under the weather and the Lescaut, sung by Jean-Luc Chaignaud, was capable enough. But hardly anything that was going on among the small roles and the chorus passed muster. The touring production put together by the Nationale Reisopera was a budget affair, with all that means in terms of limited set designs; but a sense of theatrical imagination does not cost money. Jean-Louis Cabané's production was very short on that, as it was a basic grasp of how to get the singers to move on stage.

Much of this production of *Manon Lescaut* was an embarrassment. Gergiev and his fine orchestra deserve better and some hard thinking needs to be done about the place of opera in this festival before next year.

Gergiev Festival sponsored by Philips

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Nederlands Dans Theater I: triple bill comprising Sinfonietta by Jiří Kylián, Grass by Mats Ek, and Start to finish by Paul Lightfoot; Sep 25, 26

EXHIBITION
Rijksmuseum
Tel. 31-20-673 2121
Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation; to Mar 7

BIRMINGHAM

CONCERTS
Symphony Hall
Tel: 44-121-212 3333
● City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Sibelius, Dutilleux and Mahler; Sep 24
● City of Birmingham Symphony Orchestra: conducted by Sakari Oramo in works by Schubert, Mozart and Strauss, Sep 29

BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267 9300
Monet in the 20th Century: more than 80 works painted by the artist in the last decades of his life, beginning with paintings of the garden at Giverny and concluding with several of the vast waterlily paintings that Monet called Grandes Décorations; to Dec 27

BUDAPEST

EXHIBITION
Museum of Applied Arts
Tel: 36-1-217 5222
Zsolnay: Art Nouveau Ceramics. Display of 200 objects made between 1897 and 1918 at the family-owned Zsolnay factory in Pécs. Includes goblets, vases and other objects; to Sep 27

CHICAGO

EXHIBITION
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Julia Margaret Cameron's Women: 60 vintage prints of Victorian subjects; to Jan 3, then transferring to San Francisco

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
La Gioconda: by Ponchielli. Conducted by Bruno Bartoletti in a staging by John Copley. The title role is sung by Jane Eaglen; Sep 26

FRANKFURT

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
La Périchole: by Offenbach. Conducted by Catherine Rückwardt in a staging by Peter Eschberg, with designs by Peter Pabst; Sep 26

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Sep 26, 29

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Sir Colin Davis conducts works by Mozart and Bruckner in the opening concert of the autumn season. With piano soloist Radu Lupu; Sep 24

Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Kurt Sanderling in works by Brahms, Beethoven and Shostakovich. With piano soloist András Schiff; Sep 25

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Otello: by Verdi. New production by David Freeman, designed by Tom Phillips and conducted by Paul Daniel/Mark Shanahan. David Rendall sings the title role; Sep 25
● Rusalka: by Dvořák. Conducted by Richard Hickox in a revival of David Pountney's production, directed by Lynn Binstock. The title role is sung by Susan Patterson; Sep 24

LOS ANGELES

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 8001
www.laopera.org
● Carmen: by Bizet. Washington Opera production by Ann-Margret Pettersson, designed by Lennart Mörk. The conductor is Bertrand de Billy and the title role is sung by Jennifer Larmore; Sep 25
● Werther: by Massenet. Conducted by Emmanuel Joel in a co-production with Théâtre du Capitole Toulouse staged by Nicolas Joël and designed by Hubert Monloup. The title role is sung by Ramón Vargas; Sep 26

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● BBC Philharmonic: conducted by Sir Charles Mackerras in a programme of works by Beethoven. With soloists including bass Willard White; Sep 26
● Hallé Orchestra: conducted by Owain Arwel Hughes in works by Dvořák, Mussorgsky/Ravel and Sibelius; Sep 27

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Kremerata Musica: conducted by Gidon Kremer in Piazzolla's Maria de Buenos Aires; Sep 24
● Symphonieorchester des Bayerischen Rundfunks: conducted by Yuri Ahronovitch in works by Weber, Mendelssohn and Mussorgsky. With piano soloists Anthony and Joseph Paratore; Sep 25, 26

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Kurt Masur conducts Beethoven – The Complete Symphonic Cycle. Programme III (Sep 24, 25); Programme IV (Sep 26, 28)

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Aida: by Verdi. Plácido Domingo conducts a production by Sonja Frisell, with a cast starring Maria Guleghina and Vladimir Bogachov; Sep 29
● Samson et Dalila: by Saint-Saëns. New staging by Elijah Moshinsky, with sets and costumes by Richard Hudson. For the season's opening night performance, James Levine conducts and the cast includes Plácido Domingo and Olga Borodina; Sep 28

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Il Barbiere di Siviglia: by Rossini. Directed by Albert Sherman and conducted by Guido Ajmone-Marsan. Cast includes Kristine Jepson, Daniel Mobbs and Matthew Polenzani; Sep 24

PARIS

DANCE
Théâtre des Champs Elysées
Tel: 33-1-49525050
● Cuban National Ballet: Giselle, in a staging by Alicia Alonso; Sep 24
● Cuban National Ballet: Swan Lake, in a staging by Alicia Alonso; Sep 25, 26, 27, 28, 29

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
A Streetcar Named Desire: world premiere of a new opera by André Previn, with a libretto by Philip Littell based on Tennessee Williams' play. The staging is by Colin Graham, with designs by Michael Yeargan. André Previn conducts and the cast stars Renée Fleming and Rodney Gilfry; Sep 26, 29

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
● Minnesota Orchestra: conducted by Eiji Oue in works by Bernstein and Beethoven; Sep 24
● Minnesota Orchestra: conducted by Eiji Oue in works by Mozart and Mahler; Sep 25
● Tokyo Symphony: conducted by Kazuyoshi Akiyama in works by Gershwin; Sep 26

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20. 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PERSONAL VIEW GERALD SEGAL

The west shrugs off the rest

With global security looking as volatile as world markets, Nato members are battening down the hatches

A US convoy heads for Bosnia: how much longer will Nato remain in such hotspots? AP

In financial markets, we are currently seeing a "flight to quality", with all its disturbing implications for the world economy. Something similar is going on in defence and foreign policy. There, we are seeing a flight to "quality security". The global implications are no less worrying.

Rather as nervous investors feel more comfortable in American and European markets, so the political instabilities in Asia, the Middle East and Russia are beginning to clarify the importance of core political and security relations between the US and Europe. The result is a "fortress Atlantic" mentality, with important squabbles taking place within the castle walls.

Perhaps the most obvious manifestation of this is that more attention is being paid to modernising the North Atlantic Treaty Organisation. Less is being paid to the United Nations as a security instrument or to international law as a way to manage conflict.

There is also likely to be far greater focus on stemming arms proliferation, in the expectation that longer-range ballistic missiles such as those recently tested by North Korea will be available to countries with weapons of mass destruction. Iraq, India and Pakistan demonstrate a stubborn desire to acquire a range of such weapons.

There used to be far more confidence in America and Europe that the UN could play a useful role in coping with rogue states. But the the failure to force Iraq to comply with the UN's inspection programme has naturally led to demands that the West should consider acting unilaterally.

Similarly, Russia's travails have led the US and western Europe to concentrate more on NATO. With even the most positive outcome in Russia likely to produce a regime more hostile to the West, it is hard to think why NATO states should give Moscow a veto over international security. But neither do Russian events make a rapid wider expansion of NATO very likely. The focus instead will be on integrating the important ("quality") central European states – Poland, the Czech Republic, Hungary – and on building higher walls against the spreading chaos outside. The cries from those left on the other side will grow louder, but NATO states will increasingly understand that the risk posed by Russia is more from implosion than from external aggression.

In this flight to quality and away from grandiose dreams about comprehensive security, Atlantic powers will be ever more disinclined to intervene militarily in the world's hot spots. Africans will be left to battle their way to local solutions, as now seems to be occurring in the Democratic Republic of Congo. No one will intervene in Cambodia, let alone Burma. Malaysia or Indonesia can tear themselves apart, those inside the Atlantic fortress will sit by.

Neither will the West intervene to stop conflicts between states which are beyond its radar screen. Regional powers, such as Iran and Afghanistan's Taliban, will feel free to go to war. If India and Pakistan want to use their new nuclear weapons, it is possible that no one will seek to stop them. Should ethnic Chinese in Indonesia or Malaysia find themselves in dire straits, who will stop China "demonstrating its concern for compatriots"? be

Sometimes power vacuums will be filled by the privatisation of security. In Africa and the former Yugoslavia, we see already private security firms such as Sandline and Executive Outcomes providing the military punch that used to be the preserve of states. Russia's meltdown will put more soldiers of fortune on the market, perhaps even with weapons of mass destruction. A bevy of non-governmental organisations trying to provide humanitarian aid and political advice are already stepping into the breach.

This flight to quality security will be difficult to sustain. Terrorism – that classic instrument of the weak against the strong – will be an increasing threat. As NATO members come to appreciate that the "war against terrorism" is as meaningless as the "war against drugs", and as long-range missile strikes are seen only to make the distant rubble bounce more vigorously, the Atlantic fortress will seem less secure. Outliers such as Japan, Australia and Israel will feel particularly vulnerable.

Americans are spearheading the argument that the fortress can be defended with high tech weaponry: the so-called "Revolution in Military Affairs", in which computers wioll be the vital instruments of modern warfare, not men and machinery. Adherents argue that the modern version of gunboat diplomacy may not provide absolute security, but the world outside the fortress can be kept at bay.Europeans, on the other hand, tend to see matters in terms of a "Revolution in Strategic Affairs", in which the poor and weak will use terror, weapons of mass destruction and information warfare to breach the defences of the rich and powerful. Using smart weapons at a distance will only encourage opponents to believe the West is morally weak and unprepared for a real struggle. Those who post *Taleban.com* on the Internet are also capable of crashing California's banking system through hard-to-trace information warfare. As the West takes on the rest, the flight to quality security may prove as bumpy as the flight to economic quality currently is for world stockmarkets.

The author is director of Studies at the International Institute for Strategic Studies

LETTERS TO THE EDITOR

Independence of ECB likely to be perverted if council voting is secret

From Professor Willem H. Buiter.

Sir, To survive, the European Central Bank will have to gain legitimacy. Legitimacy in a democratic society requires accountability. The can be no accountability without openness. In the context of the ECB, one key dimension of openness is the speedy publication of the voting records of the individual members of its Council.

In his Personal View, "Open for business" (September 22), Dr Otmar Issing, a member of the ECB's executive board, asserts that the Maastricht treaty specifies that the ECB's Governing Council may decide to make public the outcome of its deliberations, but not the voting behaviour of its members. In the Protocols annexed to the Maastricht Treaty it is stated (10.4): "The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public."

This is perfectly consistent with publication of the individual voting records, provided the individual votes are defined to be part of the outcome of the deliberations, rather than as part of the proceedings. The legal fig-leaf for non-publication of the individual votes does not appear to be attached securely. Dr Issing also states: "The real issue is whether making the votes known to the public effectively contributes to accountability." I agree.

He goes on to say: "Making individual members' voting behaviour public would encourage undesirable scrutiny of members' voting patterns. This, in turn, would encourage external pressures on the Council members arising from local interests. Independence, granted by the Treaty, would be at risk."

I consider this argument, which has been made also by Wim Duisenberg, ECB president, to get it exactly backwards. National political authorities and other interested parties will undoubtedly try to put pressure on "their" nationals serving on the ECB Board as well as on "their" national central bank governors. This is against the spirit and letter of the Treaty, but it will surely happen. The question is how the ECB Board members and national governors can be most effectively shielded from such pressures.

Whatever the formal confidentiality of the ECB Council meetings and votes, the national heads of government will know exactly who voted in favour of what, within five minutes of a vote being taken. Six Executive Board members, eleven national governors, countless staff and possibly a member of the Commission and the President of the Council, will be present at the ECB Council meetings. Leaks, and even open breaches of confidentiality arrangements will be the rule rather than the exception. Extensive selective leaking and competitive briefing of the media by individual Council members, behaviour characteristic of some influential continental European central banks in the past, are poor substitutes for proper accountability.

The information required to bring effective pressure to bear will be available, de facto, to the national political insiders. That information will not however, be formally available to the bodies charged with supervising the ECB (the European Parliament in the case of the ECB Board, and the national parliaments in the case of the national central bank governors of the Euro area). Council members will be able to hide behind the cloak of confidentiality, and to avoid having to justify or defend their yielding to local political pressures. The exercise of undue influence is not deterred by secrecy and confidentiality, but only by openness. Smoke-filled rooms and confidentiality are more likely to allow the ECB mandate and independence to be perverted by national political pressures than openness and the occasional short-term embarrassment that this entails.

There can be no effective accountability if the individual votes are not in the public domain.

Willem H. Buiter,
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Wrong label for something at this price

From Mr L. G Weaver.

Sir, Many label the Starr report "pornography". This is unfair. Anything that costs over $40m, and is so skilfully released in print and video versions, should be marketed as upscale "erotica". Taxpayers with scant interest in either form have a simple question for Kenneth Starr: May we have our money back, please?

G. Weaver,
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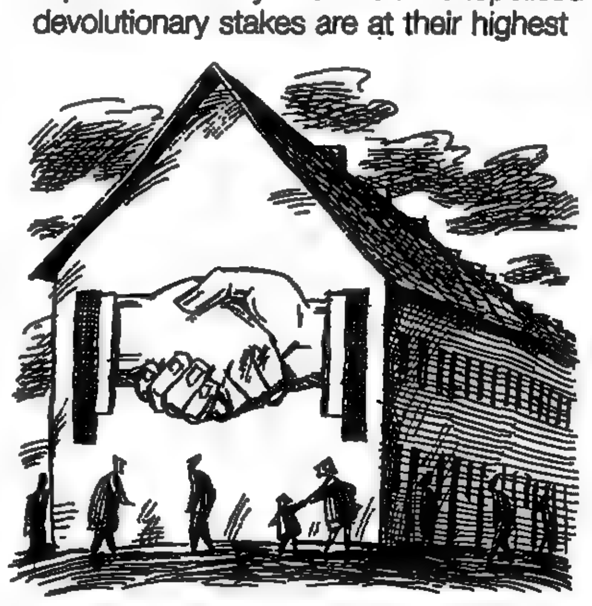
Stormont's first steps

In a province whose political identity has been monopolised by Unionism, the devolutionary stakes are at their highest



Northern Ireland is where the United Kingdom has been most celebrated and most reviled, most tightly grasped and least valued.

That remains true: April's Good Friday Agreement did not wash away the deep differences – indeed, it in some ways confirmed them. But it also set in train a unique experiment of national cohabitation which, if pulled off, could strengthen the Union.

It would do so not only because Northern Ireland will remain part of the UK, but because it would reveal the Union's ability to provide enough civic glue to stick together two communities – unionists and nationalists – who are divided on religious and political lines more deeply than any others in western Europe.

The reverse is also true: if the agreement does not produce peace, or if it dribbles away into a long stalemate punctuated by violence, the case for keeping the United Kingdom will weaken.

John Lloyd on the UK

The Ulster Assembly that the agreement ushers in is intricately cast to give no one party, or community, an untrammelled majority. Any important decision must gain substantial support from both sides: while the first minister comes from the larger of these, the deputy first minister comes from the smaller; and all parties with sufficient representation merit one or more places in the cabinet.

Further, while the Assembly – like its Scots and Welsh equivalents – is subordinate to the Westminster parliament, it is obliged to develop cross-border bodies with the Irish government. It is also placed in a network of relationships with the London and Dublin governments and with the Edinburgh and Cardiff assemblies through a new Council of the Isles.

Ulster's Assembly is as unlike Westminster as it is possible to be. Where Westminster has had no coalition government since the war, the Assembly can have no other; where Westminster's first-past-the-post system usually places parties with a minority of votes in a position of absolute power, the proportional system coupled with cross-community requirements means that effective politics will be as much about finding a-consensus as governing.These requirements for coalition building have been placed on political classes with a poor record of co-operation within their own communities and none of co-operation between them.

Impossible? It would have seemed so. Yet, since April two incidents, both appalling, have paradoxically given hope by marginalising those who oppose the peace agreement by violence. The burning alive of three boys belonging to a mixed Catholic-Protestant family, assumed to be the work of loyalist extremists, paved the way for the reassertion of influence by moderate members of the unionist Orange Order, while last month's Omagh bombing turned the Real IRA, a splinter group of the republican IRA, into a pariah organisation even in nationalist areas.

Thus murder pointed the way to reconciliation, and in further discrediting extremism, strengthened the power of a civil society to demand an end to violence.

But it has not ensured it. For that, two steps must still be taken. First, the unionists, many of whom support parties which reject the agreement, must have their fears addressed. Second, and more importantly, the mainstream republican movement – Sinn Féin/IRA – must finally give up the armed struggle.

The burden on the province's political leadership is immense – with much higher stakes than in Scotland, Wales or England. Scotland feels it can claim devolution as of right, as a separate nation. Wales, despite a more ambiguous sense of nationality, is still likely to develop a strong identity of its own. England has yet to grapple with what kind of nation it really is, but can meanwhile use the process of devolution to revive its regions and provincial cities. But in Northern Ireland, devolution has the potential to be a disruptive and difficult affair. The province's political identity was monopolised by unionism. Nationalism must now find its place within it.

The task of creating this new and unfamiliar space falls primarily on the shoulders of David Trimble, leader of the Ulster Unionist Party and now first minister of the fledgling assembly.

Mr Trimble at first glance seems an unlikely figure to reconcile warring traditions. Fiercely opposed to nationalism as a young man, he became Unionist leader as the hard-line choice. An enduring image is of him linking arms with the Reverend Ian Paisley and dancing a jig at the end of an Orange March forced through a Catholic area in 1995.

But he has changed, fundamentally. Interviewed recently in a temporary office in Stormont, the Assembly's palatial home, he looked ahead to a time when he could be prime minister of nationalists as well as unionists. "It is possible, if we get peace and if we can share common goals. I think we can unite against the retention of weapons, and against paramilitarism."

In his first deputy minister, Seamus Mallon, deputy leader of the nationalist Social Democratic and Labour Party, Mr Trimble has a man with whom he had already established a bond of trust; that odd couple must endure and grow as a symbol of the possibilities of co-operation.

For Mr Trimble, the great issue is the IRA's full acceptance of the implications of the Good Friday agreement. He had been scheduled to construct a cabinet in which Sinn Féin would have two seats; he says he cannot do it while Gerry Adams, Sinn Féin president, remains ambiguous on peace and the IRA has not begun decommissioning its weapons.

"Even the Irish National Liberation Army [a particularly violent republican splinter group] has now said it has declared an end to the war. But Gerry Adams hasn't said this. He has condemned the bomb at Omagh and I have recognised that. But he has not said the war is over. And we need to have that from them before we move on," he said.

For Mr Adams, two approaches are available. Either he further destabilises a Union to whose destruction he has dedicated his life, or he fully embraces democratic norms, recognising that Irish people, of both Irish and British citizenship, have endorsed the agreement in the hope that Irish unity might come through time and in peace.

It is a choice on which not just the union of Northern Ireland with the rest of the UK depends, but one which will vitally influence the future of the Union itself.

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FINANCIAL TIMES

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Thursday September 24 1998

Pouring oil on troubled prices

Big oil is in a sweat. Does this matter?

With a few caveats, the low prices which are causing such anxiety and upheavals in the industry should be good for the rest of the world, helping to lock in low inflation and to keep the global economy ticking over during a period of financial turmoil.

But the decision of the leading international oil companies to hold a summit to discuss their troubles raises a few anxieties beyond those in the industry's parish. Most obviously, what do the oilmen really think they are up to?

The incentives for the major companies to reach understandings which might raise prices and improve profits are huge. Anything which savoured of a cartel would quickly be sniffed out by the antitrust authorities. But the industry does have a long history of informal co-operation – often by no more than a quiver of corporate body language. The authorities must beware.

In one respect, though, the outcome might be benign. As Shell's recent decision to close several country headquarters and BP's spectacular takeover of Amoco have shown, there is still an urgent need for cost cutting in the industry. This will probably lead to more mergers. It will also increase the pressure for technical innovation, helped perhaps by legitimate co-operation.

The primary purpose of cost cutting is to improve profitability. But consumers may also benefit – provided that competition is not eroded. And for the time being at least, there are plenty of competitors, including the recently privatised or part-privatised European companies including Elf, Total and Eni.

In the longer term it might be argued that low oil prices create a danger. After all, crude now costs about the same in real terms as it did for most of the period from the second world war to 1974. Low prices then stimulated demand until a looming shortage and the Opec cartel raised the price sixfold in six years.

Could it happen again? Perhaps. But most people do not expect a supply shortage to emerge before 2010. And the present slowing of world growth might extend that horizon. Governments can help to postpone the crunch by using taxes to raise consumer prices and so restrain demand. That is desirable anyway to help reduce the danger of global warming.

All this will not help oil companies of course, but for the world it makes economic sense to use up low cost supplies, particularly in the Gulf, before investing heavily in remote or hostile regions. Prices will have to rise to reflect the longer term costs, but barring an unexpected cataclysm this may be gradual. Tough for big oil: good for everyone else.

Fiscal faultlines

With the Maastricht hurdles now safely jumped, governments throughout Europe are taking a breathing space from the painful process of fiscal tightening. Political pressures to ease are particularly acute in Italy, where the presentation of the budget tomorrow is bound to cause fireworks.

Italy's prime minister, Romano Prodi, this year has his eyes firmly fixed on boosting Italy's sluggish growth rate. He will put forward a budget which contains the smallest fiscal squeeze for many years, including a number of tax breaks and a partial refund of the temporary Eurotax.

Even this fairly soft budget, though, could be blocked by the Reconstructed Communists. A possible split within the RC party could complicate negotiations, implying a cliffhanger vote.

That fiscal reform is temporarily on a back burner is not surprising. Italy has just been through an exceptional period of fiscal consolidation. This year the government is expected to run a primary surplus of 5.5 per cent of gross domestic product, which will turn to deficit only because of interest payments amounting to 8 per cent of GDP.

Admirable though its efforts have been so far, though, Italy still needs to go further. The pension system remains the most pressing issue. Despite recent reforms, the burden of pension spending, at 14 per cent of GDP, is still nearly double the EU average, putting a huge strain on the public finances. Quite apart from the immediate pressures, Italy needs to make deeper reforms to cope with increased competition within Emu. Otherwise its high tax burden, poor public administration and heavy labour market regulation will leave it hard pressed indeed.

The Italian situation is not unique. Pressures to relax fiscal policy are being felt throughout Europe. Although budget deficits in most of the major euro-zone countries are set to fall next year, this is only to be expected when output growth is above trend. In fact, estimates by JP Morgan suggest that fiscal policy in eight out of the eleven countries will ease slightly in 1999.

If this is just a reaction to the efforts of the past few years, there is little to worry about. But without the incentive of meeting the Maastricht criteria, there is a real danger that fiscal reform in Europe could stall.

Without further action, an economic slowdown could cause the fiscal deficits of the big three euro-zone economies, now around 2.5 per cent of GDP, to bump up against the Stability and Growth Pact limit of 3 per cent. This would leave them no room for further budgetary easing even if it were needed – and, conceivably, provide the first real test of the Emu project.

Iran and Rushdie

A flurry of excitement has greeted remarks by Mohammad Khatami, Iran's reformist president, saying he regards the Salman Rushdie affair as over. Today in New York, in the margins of the UN general assembly, Robin Cook, the British foreign secretary, will be meeting Kamal Kharrazi, his Iranian counterpart, to find out whether these comments amount to a shift in Tehran's position. Almost certainly they do not.

Mr Rushdie was sentenced to death in a religious edict issued in 1989 by Ayatollah Ruhollah Khomenei, Iran's late Supreme Leader, who held his novel *The Satanic Verses* to be blasphemous against Islam. One of the parastatal foundations set up by the 1979 Islamic revolution offered a $2m reward and exhorted Moslems wordwide to kill the Indian-born writer.

Mr Khatami's government, and its predecessor under Hashemi Rafsanjani, have repeatedly said they have no authority to revoke the *fatwa*, but pledged that Iran will not despatch assassins to carry it out. Before leaving the UN on Tuesday, Mr Khatami said Iran and the west should put the dispute behind them, saying it was "completely finished".

Although the bounty on Mr Rushdie was increased only last year to $2.5m, and he remains in semi-hiding under close guard, there is now speculation that the Iranian president's statement presages cancellation of the blood-money. But this also looks improbable in the short term.

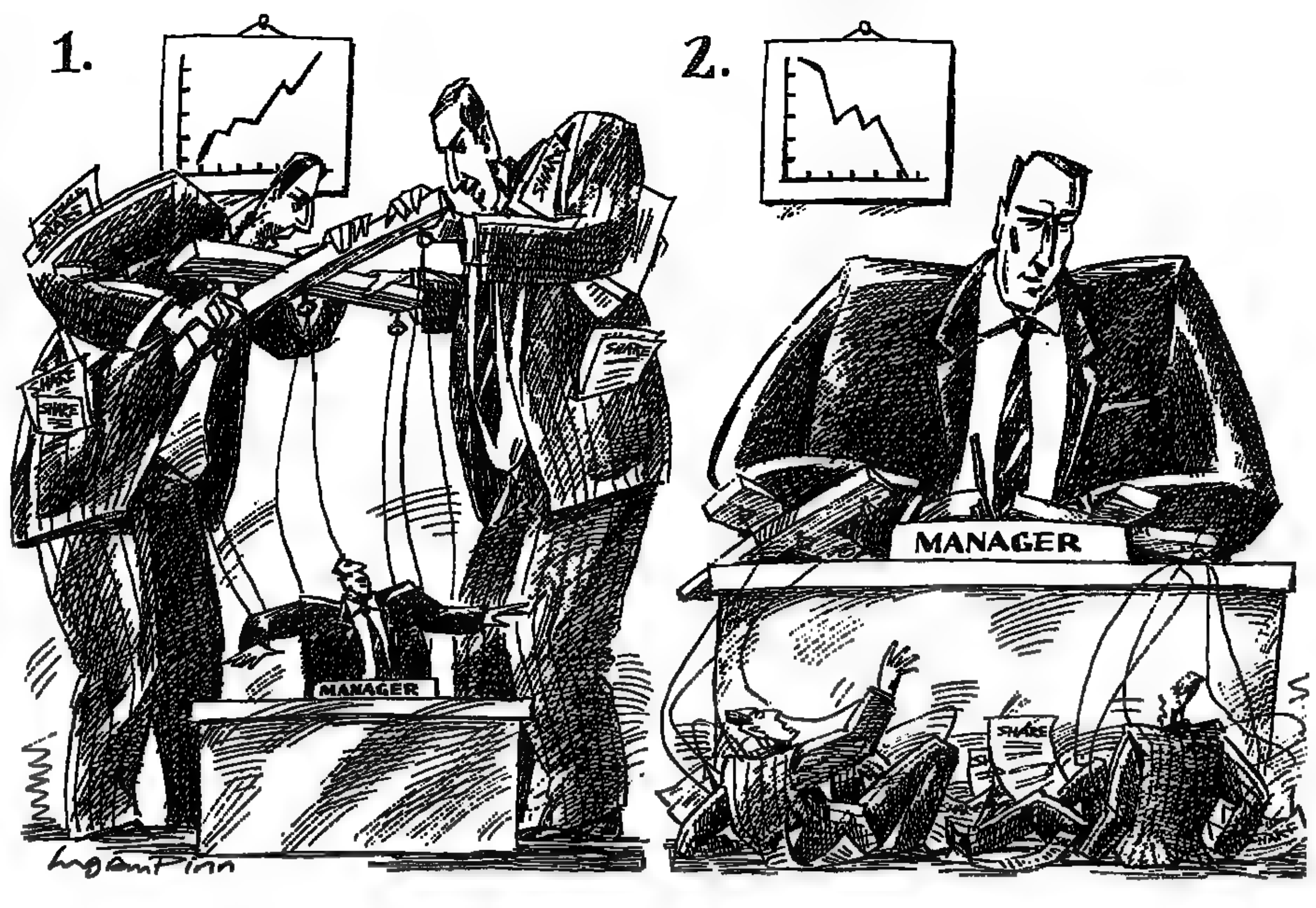
The foundation in question, like all the *bonyads* created from the assets of the deposed Shah and his circle, is answerable only to Ayatollah Ali Khamenei, Khomenei's successor as Supreme Leader. He is the figure around whom hardliners crushed by Mr Khatami's election landslide last year have tried to regroup to oppose reform.

Mr Khatami has so far retained the initiative, but only by hastening slowly. His priorities have been to rebuild or cement ties with Iran's volatile neighbours in Central Asia and the Gulf, prior to a broader opening to the west, and to build a more pluralist civil society under the rule of law. His followers think a head-on approach to something as totemic to the theocrats as the Rushdie affair would be tactically disastrous – especially now, when the danger of a border war with the Taliban in Afghanistan offers the conservatives a chance to regain influence. Instead, they are trying to bring the *bonyads* and other conservative power centres under government control.

The UK is of course right to press for an end to Mr Rushdie's intolerable situation. But given the delicate balance of power in Iran, it is unlikely to get a cut and dried resolution now.

Managers v shareholders (again)

Shareholder power grew everywhere during the great bull run of the past 16 years. The question is, says **Tony Jackson**, can it survive if there is a bear market?



These are bad times for investor capitalism. Some of its cherished tenets are under attack: for instance, that footloose capital should be free to flow in and out of developing countries.

A similarly basic tenet says the best way to run a company is to maximise its value to shareholders. The traditional managerial aims of empire building is out of fashion. All that matters is a rising share price, whatever the cost to the corporate structure or the workforce.

Politically, the creed of "shareholder value" has always had its critics who claim it neglects the wider interests of staskholders. So far, managers have shrugged that off. But suppose the markets continued to slide. Could the creed survive?

This is not a trivial question. At least some of Wall Street's extraordinary rise over the past 16 years has been due to the growing assumption among US managers that their first duty is to please the stock market.

To a lesser extent, the same has been true in the UK. And the sharp rise in continental European equities – before the recent slump, anyway – owed much to hopes that the gospel of shareholder value was being embraced by managers raised in the very different corporate traditions of France or Germany.

To advocates of shareholder value, it seems unthinkable that this trend should reverse merely because share prices fell. The whole basis of value creation, they say, is for companies to earn more than their cost of capital.

In a recession or slump, this becomes even more essential. Those companies which create value will have a competitive edge. Those which destroy it will be brutally exposed.

Shareholder value is just a label, says David Thompson, joint managing director of the UK retailer Boots. "It's all about putting resources in places where they will do most good. I don't know what on earth you would put in its place which would do the job better."

But this is not quite the whole story. In the first place, the idea that companies must recover their cost of capital is not a new invention. The eminent British economist Alfred Marshall stated it clearly a century ago. But it was not systematically applied to management until the 1980s. And as a fashion it could fade.

Second, it has become commonplace in recent years to assert that managers and shareholders have identical interests. But this is relatively new. Historically, the two groups have more often been seen as in opposition. In certain companies and cultures, some would say they still are.

The earlier belief had its origins in work published by two US academics, Adolf Berle and Gardiner Means, in 1932. Around half of big US companies, they calculated, already had their shares so widely held that the only people in effective control were the managers. By the late 1970s, later studies suggested, that figure was nearer 85 per cent.

From this arose what economists call agency theory: the proposition that managers will seek to maximise their own power and remuneration by pushing up the company's sales, headcount and market share. Value creation and the share price come a long way behind.

In fact, this is not a bad description of how many big companies, even American ones, used to behave. Some of the most bruising corporate battles of the 1980s, on both sides of the Atlantic, came as shareholders – or their proxies, corporate raiders – sought to stop managers running companies as private fiefs.

What made the change possible? First, shareholder power is no longer being dispersed, but concentrated. By 1990, the proportion of US equities held by financial institutions – as opposed to the general public – rose above 50 per cent.

In addition (though this is harder to measure) it appears that the merger of financial institutions has put voting power into fewer hands. Across the whole economy, managerial power is now dispersed by comparison. To that extent, the shareholder revolution seems here to stay.

The most powerful force for change, however, has been the behaviour of the markets themselves. Since 1982, the US economy has grown 2.5 times in nominal terms. The US equity market has risen by a factor of nine.

In itself, this does not mean the market is overvalued. After all, it was deeply depressed in 1982. But in the long run, logic dictates that share prices - and the corporate earnings which underpin them - cannot rise faster than the economy as a whole.

In that sense, the period since 1982 has been a sustained abnormality. One would expect abnormal developments in corporate behaviour as a result.

At its root, value-based management requires executives to make a difficult and indeed counter-intuitive assumption: that the market understands their business better than they do. In a long bull market, this becomes progressively easier to accept. After all, each rise in the share price constitutes a pat on the back. But what would happen to managers' attitudes in a long bear market?

If nothing else, consider what would happen to their remuneration. In the past 16 years executives have increasingly paid themselves in stock rather than cash. Given that stock prices were rising much faster than the real economy, this made perfect sense. It also provided a direct link between their interests and those of the shareholders.

But what happens if share prices persistently fall? How long will executives submit to being paid in a depreciating currency? And if the share price keeps implicitly criticising their performance, how long will they remain patient with the market's claim to a superior understanding of their business?

Should they rebel, there could be far-reaching implications. Over the bull market years, corporate chiefs have come in for a good deal of criticism: for mass lay-offs and social disruption, and for their unwillingness to put other stakeholders on an equal footing with investors.

Throughout, they have been fortified by their belief in shareholder value, and by its practical effect on their personal wealth. Take that away, and why should they face the political flak? Why not be more accomodating to other claims on the business?

Any such development would, of course, be bad news for the equity markets. On the way up, shareholder value was self-reinforcing: investor-friendly behaviour by companies pushed up share prices, and thus encouraged more of the same. This would apply equally in reverse.

There is one sense, however, in which value-based management could itself prove damaging to the wider economy in a downturn. The basic premise, it will be recalled, is that companies should recover the cost of their capital, as adjusted for risk.

In the past couple of months, the cost of capital has risen sharply. This is most obviously true in the equity market, where falling prices reflect the higher premium investors require for heightened risk. But it is also true of the corporate bond market, where yields, except for the most blue-chip companies, have risen sharply as well.

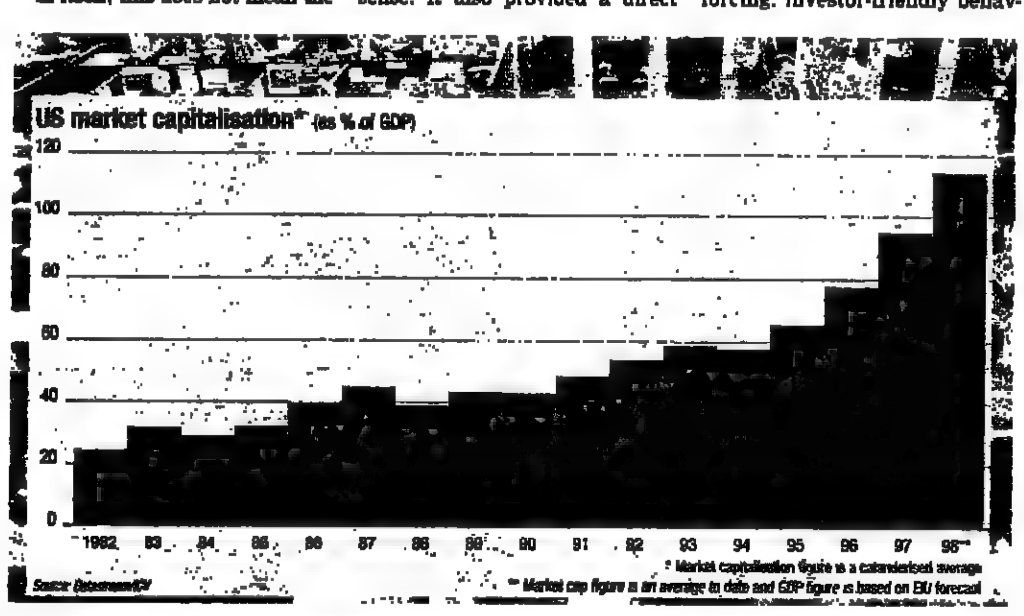
For the value-based manager, that means only one thing: that the return on investment must rise correspondingly. In an economic downturn, that would worsen the contractionary effect: for there would be ever fewer projects to satisfy ever more demanding criteria.

In sum, the effects on corporate behaviour of a prolonged bear market - should such a thing occur - would not be straightforward. There would be no simple return to the old bad habits of the 1970s. Too much has changed, and beliefs bred into a generation of younger managers would be slow to change.

On the other hand, consider the chart. This compares the market value of US equities with US GDP, and thus measures the power of portfolio investors in relation to the economy as a whole.

In 1982, equities were worth 25 per cent of GDP. This year, they were worth 115 per cent of GDP – a level without historic precedent.

Looking forward, the implication for the balance of power seems clear. The rise of investor capitalism has been one of the most extraordinary phenomena of recent years. It cannot go on for ever.



* Market capitalisation figure is a calendarised average
** Market cap figure is an average to date and GDP figure is based on EU forecast

OBSERVER

Adler heads for the exit

The surprise takeover bid by HIH Insurance for FAI Insurances signalled the end of another Australian business dynasty.

The company has had its share of ups and downs since its foundation by the late Larry Adler in 1960. Lately, his son Rodney has steadied the company's fortunes, enabling a graceful exit.

Larry Adler built FAI into one of Australia's top 50 companies through shrewd wheeling and dealing, but it took a huge tumble in the 1987 stock market crash – at the time, the elder Adler boasted he had made a "fair bit of money" out of the mess. But recession, natural disasters and massive writedowns of property assets acquired from failed entrepreneur Alan Bond's group of companies forced the company into the red in the early 1990s.

There was some recovery under the younger Adler, but things haven't gone too well recently and the HIH offer undoubtedly provided an attractive way to go.

Just 24 hours before yesterday's takeover, FAI shares jumped nearly 12 per cent on heavy trading amid takeover rumours. Adler said he could think of no possible reason for the sudden rise, except that the market might have realised FAI was undervalued. At least he maintained, to the very end, the family reputation for playing its cards close to its chest.

Brotherly love

The Irving family of New Brunswick is one of Canada's wealthiest and least loved. The late K.C. Irving built a forestry, oil and newspaper empire in the Atlantic provinces and moved his legal residence to Bermuda to avoid paying Canadian taxes. He made sure that his heirs became non-residents too.

But even the Irvings aren't keen to be seen driving a group of monks out of the country.

The monks, part of the Catholic Carmelite order, set up an isolated monastery in the forests of Nova Scotia 26 years ago. But their prayers and silent contemplation were shattered when the J.D. Irving company began cutting down trees near the monastery last year.

The monks pleaded with the forestry arm of the family empire to keep at least 3.2 km from the monastery, almost out of earshot. The Irvings, who aren't known for their love of compromise, tried to make a deal with the Carmelites, but held out for a 1.6 km silent zone.

The monks have thrown in their habits, and are off to monasteries in Ireland and Colorado: they say they'll stay there for at least a year.

But they aren't going quietly, and even called a press conference to declare: "The natural beauty is spoiled, the silence is spoiled, ugliness surrounds us." Doesn't sound like there's much room for lumberjacks in their prayers.

Dan departs

Poor old Daniel Daianu was never enough of a politician to be a minister, and yesterday paid the penalty – sacked as Romanian finance minister after less than a year in the job.

The suave, Harvard-trained economist's lack of political nous showed in his bluntness. This year he flatly refused to sign a deal giving government guarantees on a controversial $1.5bn helicopter deal, even though the rest of the cabinet had already approved it.

A better politician would have made some effort to build bridges with the old guard in Bucharest's labrynthine finance ministry. Instead, Daianu and his team of bright young things appeared too aloof and intellectual, with little appetite for the messy side of the job, like getting the taxes collected.

But Romania may yet find a use for the man who has long been the acceptable face of Romania abroad, schmoozing at every global gabfest from Davos to Detroit – he speaks seven languages and looks every inch the Western investment banker.

The last time he worked at the finance ministry, he moved on to the central bank. With the central bank governor's chair about to fall vacant, it's a move that might be repeated.

Hard for Kjell

Norway's prime minister Kjell Magne Bondevik is back at work today after a bout of depression triggered by overwork. As if trying to keep a weak minority coalition government together wasn't taxing enough, he's returning after a bit of a diplomatic spat with the Italians.

Apparently junior finance minister Arne Sinnes – a member of Bondevik's Christian Democrats – wrote an article, posted on the internet, about Norway's fragile political situation, comparing it with Italy's.

This didn't go down well with Mario Quagliotti, Rome's man in Oslo, who demanded an explanation. Quagliotti might have pointed out that premier Romano Prodi's coalition controls a majority in parliament, while Bondevik commands 42 out of 165 seats – and that Bondevik has some time to go if he's to last as long as Prodi. He might even have observed that Italian interest rates are lower than Norway's.

But with Prodi facing yet another crisis in relations with the hard-left Reconstructed Communist allies next month, Bondevik's not the only coalition leader in danger of overwork.

The Financial Times

100 years ago

Occult Book Company
A pamphlet has been sent to us by the Occult Book Company of Halifax, showing how coming events may confidently be anticipated by means of astrology. From this we find that several interesting circumstances will attend the equinox. Mars will be in the 12th House in the Sign of the Crab, which sounds as if Mars were out on a whisky walk. But the great point is that from these and various other peculiar symptoms Mr G. Wild, of the Occult Book Company, is able to inform us that "these positions are good for railway returns, Post Office reforms and speculative business."

50 years ago

Hat Makers Worried
In an attempt to persuade more men to wear hats, the British Felt Hat Manufacturers' Federation has adopted a plan to set up a hatters' information centre. This will inaugurate and conduct a publicity campaign and public relations service. The felt hatting industry centred largely in Cheshire and Lancashire is experiencing short-time working and unemployment because of insufficient demand at home and import restrictions by some countries.

FINANCIAL TIMES
THURSDAY SEPTEMBER 24 1998

THE LEX COLUMN

Capital punishment

Should Long-Term Capital Management, the troubled hedge fund run by former Salomon Brothers trader John Meriwether, be bailed out?

The short answer is no. Investors in hedge funds are hardly widows and orphans. They know the risks they are running and should take their losses on the chin. The same goes for any banks that lend to highly leveraged vehicles like hedge funds. Unfortunately in this case, the leverage seems to have been taken to extremes. While LTCM admitted earlier this month that its capital base had shrunk by half to $2.3bn (and may have disappeared entirely by now), its total exposure is many times that – at the end of June it amounted to around $40bn.

A balance sheet this large raises questions of systemic risk, which is why New York's Federal Reserve has become involved. In today's jittery markets, the fear that LTCM will be forced to liquidate its positions could drive prices down further and trigger a liquidity crunch. Already, some hedge funds and investment banks are apparently no longer prepared to trade with each other.

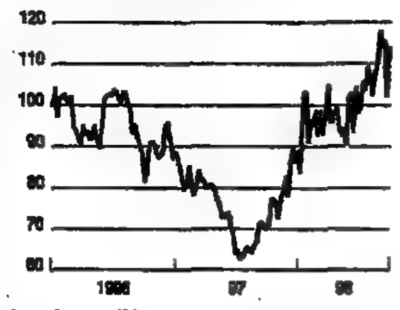
The best solution, therefore, might be for LTCM to be in effect taken over by one or more of its lenders. As the lead bank, Chase Manhattan looks the obvious choice. It could then oversee an orderly unwinding of LTCM's positions over time – exactly what happened with defunct junk bond house Drexel Burnham Lambert. Shareholders and lenders would still lose all or almost all their money, but it would not threaten the market. Even then, however, a failure the size of LTCM would put hedge funds and their lack of strict regulation back on the agenda.

Bouygues

Reading the runes of Bouygues' interim results is a hit and miss affair. But the market was right to draw some encouragement. France's economic recovery and benefits from restructuring fed through into a 53 per cent increase in profits, before tax and exceptionals, to more than FFr1bn. This was despite deepening losses at Bouygues Telecom.

But after tax and other charges, the bottom line was little more than FFr100m. Clearly this business, with an enterprise value (including net debt) of about FFr33bn, is not being valued on its earnings per share. On a sum-of-the-parts basis, the biggest constituent is Bouygues Telecom, where valuations centre on about FFr30bn – Bouygues has a third. Its stakes in three other companies, notably the TF1 television channel, are valued at about FFr14bn.

Bouygues
Share price relative to the CAC 40 index



Source: Datastream/ICV

This appears to leave an undemanding FFr10bn for Bouygues' original building business and the Saur/Cise utilities arm. But discounts must be factored in for its conglomerate status and uncertainty over strategy. Dissident shareholder Vincent Bolloré is right to call for a refocusing, but Martin Bouygues, chairman, has so far been proved right in hanging on to Bouygues Telecom. At some stage he will have to reduce the number of pies Bouygues has its fingers in. Bringing a partner into Saur/Cise should be a prelude to this.

UK banks

Lloyds TSB and HSBC remain Britain's largest banks. But who are numbers three and four? Back in January, Barclays then Halifax would have been the right answer. No longer. Halifax is now number three, and Barclays only just pips Abbey National for fourth slot.

These numbers reveal a massive flight to safety. Over the last month, the five mortgage banks have outperformed the market by an average of around 13 per cent. During the same period, the best of the other large banks has underperfomred by around 5 per cent. Similar patterns of domestic banks outperforming are also evident on the continent – witness Bankinter and Popular in Spain.

Valuations also reflect damage to investor confidence. Growing trust that banks had discarded their profligate ways underpinned re-rating over the past three years. But when Barclays announced a £250m provision for its Russian exposure, cynicism flooded back. Poor National Westminster was caught in the crossfire while the mortgage banks revelled in the market's new defensive posture.

On multiples of only 11 times 1998 earnings, Barclays and NatWest are a complete steal. A measure of how out-of-kilter valuations have become is that Abbey is now worth as much as ABN Amro and Halifax as much as the mighty Deutsche Bank. But with sentiment as it is, the internationally-exposed banks may get cheaper still.

Greenspan

Alan Greenspan gave the clearest indication yet that US interest rates are heading downward – and Wall Street's knee-jerk reaction was to jump. Perfectly logical?

Well, hang on a minute. The Federal Reserve chairman did not just say the international financial crisis was more than sufficient to keep a lid on US inflation. He also said a string of other things, which are gloomy for equities. For example: that there is little sign of global contagion subsiding; that the US and Europe cannot remain oases of prosperity; that the US economy is eroding around the edges, especially in manufacturing; that a more virulent phase of the crisis has hurt US stocks while banks are more cautious; and that lower equity prices could dampen household and business spending. all this as a giant hedge fund is struggling under a mountain of debt.

True, the prospect of lower rates takes the edge off the bad news. But it does not turn it into good news. With financial institutions like Long-Term Capital Management facing trouble, there is a risk that the credit crunch could move closer to the core of US and European financial systems. In that case, loosening monetary policy to ease liquidity would be precisely the right response. But lower growth and heightened sensitivity to risk are hardly tasty for stocks.

US critical of China's increasing trade barriers

Warning of retaliatory measures if protectionism continues

By James Kynge in Beijing

The US threatened unspecified retaliatory measures yesterday if China failed to dismantle several barriers to trade and investment.

David Aaron, US under-secretary of commerce, said during an official visit that China's estimated $60bn trade surplus with the US this year was "politically unsustainable", especially at a time when Beijing appeared to be erecting new trade barriers. China has said that other countries should be more aware of the sacrifices it has made by not devaluing its currency at a time of regional financial crisis.

But Mr Aaron made it clear that much of the goodwill arising from the summit with President Bill Clinton earlier this year would be at risk if Beijing did not reverse recent restrictions.

"We don't want to see protectionism spread as a result of this [Asia's] crisis. If it does it will deepen the crisis," he said.

The annual renewal by the US of China's Most Favoured Nation trading status, now called Normal Trade Relations, would become "even more of an uphill struggle" if greater market access for US exporters to China was not achieved, Mr Aaron said.

He did not rule out the possibility of US sanctions under trade law provisions.

Mr Aaron listed several specific US grievances.

- A proposed ban by China on the only avenue used by foreign companies to invest in the domestic telecoms services market. Foreigners are barred from holding direct equity in telephone services, but can access the market through consultancy and other contracts.
- A decision in May by China to restrict imports of power plant equipment in favour of domestically produced generating equipment. Under US pressure the Chinese have reduced the list of projects not permitted to use foreign components from 11 to four, but Mr Aaron said it should be cut altogether.
- Mr Aaron said China was expected to announce a new schedule of price and profit controls by October 1. One of these would involve discriminatory price controls on imported pharmaceuticals, he added.
- The State Machine Building Bureau recently placed import quotas and licensing requirements on more than 20 types of machinery. The US would like to see these ended.

Mr Aaron also criticised the lack of an "adequate response" by Beijing toward US proposals that could form the basis of China's accession into the World Trade Organisation.

"We need to see much more dedication to results [on the WTO] on the Chinese side. Without such progress we will need to obviously consider alternatives."

China has found it difficult to make far-reaching promises on market access and deregulation when its economic growth rate is slowing, its marketplace is chronically oversupplied, its banking system is mired in bad debts, and export growth and foreign investment inflows are on a downward trend.

Chinese currency, Page 6

Kohl and Schröder do battle over tax system and the welfare state

By Peter Norman in Bonn

Helmut Kohl, the German chancellor, and Gerhard Schröder, the opposition Social Democratic party candidate, yesterday stepped up the battle for the centre ground of German politics to be contested in Sunday's general election.

Mr Kohl renewed his promise that Germany's complex and inequitable tax system would be comprehensively reformed should his centre-right coalition be re-elected. He expressed confidence in the party's ability to push its plans through the Bundesrat, the SPD-controlled second chamber of parliament in Bonn.

Meanwhile, Jost Stollman, Mr Schröder's non-party nominee for the post of economics minister, continued to criticise Germany's welfare state for the burdens it imposed on average families.

Undeterred by the condemnation of leading SPD trade unionists after having earlier called for "bold policies to restructure" Germany's welfare state, he said it was "incompatible with democracy if we make a large segment of our population prisoners of a social security system".

Strongly supported by Mr Schröder, Mr Stollman called for greater individual responsibility and challenged the sanctity of the state pay-as-you-go pension system, saying private provision was better.

In recent public meetings Mr Schröder has appeared to drift to the left, stressing his party's support for greater social justice in Germany. But in an evening interview with the ZDF television channel, Mr Schröder portrayed himself as a moderniser of Germany's social market economy and disowned socialism as "inoperable" in today's world.

Mr Kohl, who has stood as the guarantor of the welfare state and pension system throughout his election campaign, voiced his frustration with Mr Schröder and Mr Stollman in a ZDF interview last night. "He [Mr Schröder] and his people have adopted positions which have absolutely nothing to do with the SPD or Oskar Lafontaine [the SPD leader]."

He stressed voters faced the choice between the centrist Bonn government of his Christian Democratic Union, the Christian Social Union, its Bavarian sister, and the Free Democrat party, or a leftist coalition of SPD and environmental Greens.

Sunday's vote might be so close as to leave neither coalition with a majority – the east German PDS would hold the balance of power. Against this background, Mr Kohl conceded yesterday that a "grand coalition" of CDU/CSU and SPD – which Mr Schröder said was conceivable – was "possible in principle".

But he stressed there was no need for such a government and warned that a parliament in which 90 per cent of the MPs belonged to government parties would "perform no productive work", reiterating he would not head a grand coalition.

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South African troops in Lesotho under fire as they evacuate a wounded soldier by helicopter during a second day of violence. Page 4

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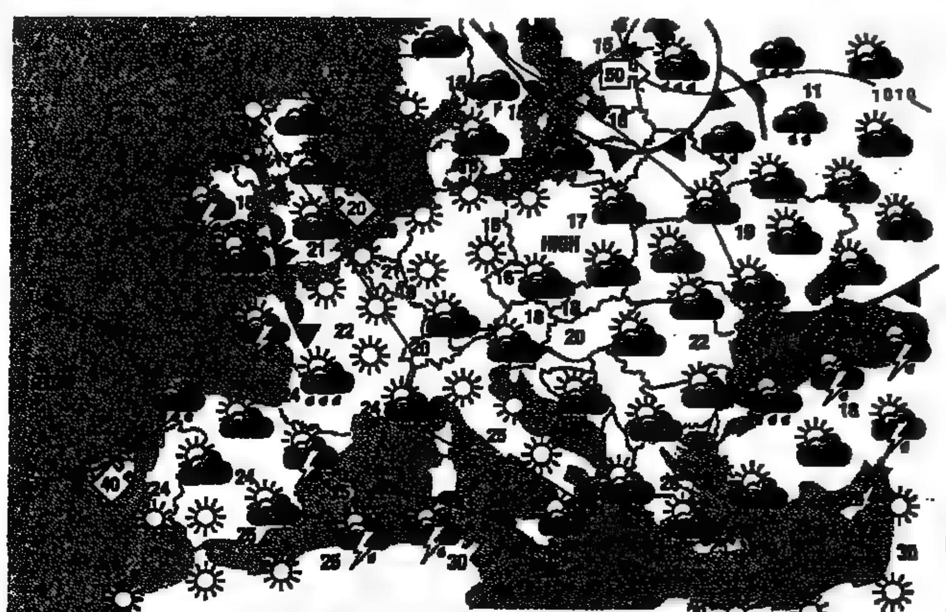
Surveys: details of forthcoming editorial surveys.
http://www.ft.com/newspaper/2366.htm

FT WEATHER GUIDE

Europe today
Eastern France through to Ukraine and south to Greece will be fine and sunny. However, morning fog will be slow to clear in some places. Southern Norway and Sweden will be dry with sunny spells. Northern Scandinavia will be cold with showers or longer spells of rain. Southern Finland and north-western Russia will be breezy and cool with a spell of rain followed by blustery showers. Southern Italy, eastern Spain and western France will have thunderstorms. North-western Spain and Portugal will be wet and windy.

Five-day forecast
Thundery rain over Spain and western France will spread to the rest of western Europe by the end of the weekend and then central Europe by early next week. The western Mediterranean will have thunderstorms. Eastern Europe will stay fine but cool in the north.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	37
Accra	Cloudy	28
Algiers	Shower	26
Amsterdam	Sun	20
Athens	Fair	26
Atlanta	Sun	26
B. Aires	Cloudy	21
B.ham	Fair	20
Bangkok	Thunder	31
Barcelona	Shower	23
Beijing	Fair	25
Belfast	Fair	17
Belgrade	Fair	21
Berlin	Sun	18
Bermuda	Shower	29
Bogota	Cloudy	20
Bombay	Shower	[illegible]
Brussels	Sun	21
Budapest	Fair	20
C.hagen	Fair	18
Cairo	Sun	31
Caracas	Fair	31
Cardiff	Fair	19
Casablanca	Fair	24
Chicago	Fair	23
Cologne	Fair	21
Dakar	Cloudy	31
Dallas	Fair	31
Delhi	Cloudy	29
Dubai	Sun	35
Dublin	Shower	16
Dubrovnik	Sun	23
Edinburgh	Cloudy	18
Faro	Fair	24
Frankfurt	Fair	19
Geneva	Fair	20
Gibraltar	Fair	25
Glasgow	Fair	17
Hamburg	Sun	19
Helsinki	Shower	15
Hong Kong	Sun	32
Honolulu	Fair	31
Istanbul	Drzzl	20
Jakarta	Cloudy	33
Jersey	Shower	20
Johannesburg	Sun	31
Karachi	Sun	36
Kuwait	Sun	44
L. Angeles	Fair	23
Las Palmas	Fair	28
Lima	Cloudy	20
Lisbon	Shower	23
London	Fair	21
Luxbourg	Fair	19
Lyon	Fair	22
Madeira	Fair	26
Madrid	Fair	24
Majorca	Thunder	25
Malta	Thunder	28
Manchester	Fair	20
Manila	Thunder	32
Melbourne	Fair	17
Mexico City	Cloudy	26
Miami	Thunder	32
Milan	Fair	24
Montreal	Fair	17
Moscow	Rain	11
Munich	Sun	18
Nairobi	Cloudy	25
Naples	Fair	28
Nassau	windy	32
New York	Sun	21
Nice	Fair	24
Nicosia	Sun	29
Oslo	Fair	16
Paris	Fair	22
Perth	Rain	20
Prague	Fair	16
Rangoon	Fair	31
Reykjavik	Cloudy	13
Rio	Fair	24
Rome	Fair	25
S. Frsco	Fair	22
Seoul	Fair	27
Singapore	Thunder	31
Stockholm	Fair	16
Strasbourg	Fair	20
Sydney	Fair	21
Tangier	Fair	25
Tel Aviv	Sun	30
Tokyo	Shower	28
Toronto	Fair	16
Vancouver	Fair	19
Venice	Sun	22
Vienna	Fair	19
Warsaw	Fair	17
Washington	Sun	22
Wellington	Cloudy	15
Winnipeg	Cloudy	19
Zurich	Fair	16

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COMPANIES & MARKETS
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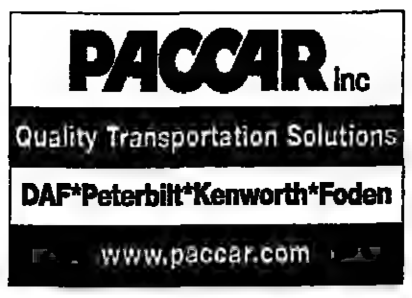

INSIDE

COMPANIES IN THIS ISSUE

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MARKET STATISTICS

Internet shares boosted by alliances

Yahoo! reaches new high with AT&T deal

By John Labate in New York

US internet shares roared ahead yesterday on news of the latest alliances between web search engines and large high-technology companies, and expectations of future earnings.

Yahoo! shares traded at an all-time high of $112¾ on a 9.5 per cent rise after the company said it had formed a new alliance with AT&T's Worldnet Service.

Excite, another search engine company, surged 26 per cent higher to $35¾ after it announced it would provide services to Dell Computer.

Other internet stocks were similarly strong, sending the American Stock Exchange's internet index nearly 4 per cent higher to 382.51. Amazon.com, the online bookseller, was 10 per cent higher to $97⅞.

US equities overall had a strong morning as investors awaited afternoon testimony by Alan Greenspan, Federal Reserve chairman, before the Senate budget committee.

Analysts pointed to other reasons for the internet sector's recent strength, including the release of independent counsel Kenneth Starr's report on President Bill Clinton and Monday's broadcast of Mr Clinton's grand jury testimony – both of which were made available via the internet.

"What it's done is further the internet as a mass market medium," said Ryan Jacob, portfolio manager of The Internet Fund in New York. "It continues to validate its importance."

Just a few weeks earlier many had suspected the US equity market's widespread downturn would deliver a sharp correction to the high-flying sector, which enjoyed exceedingly rich valuations but low or non-existent profitability.

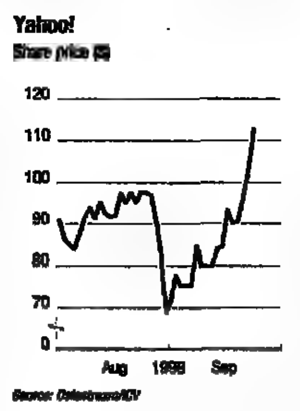
Such a correction did occur throughout the sector and few have rebounded to reach new highs, but many leading shares have gained ground recently.

Yahoo! is one of the few internet stocks to have turned a profit, and it is expected to report quarterly earnings in early October.

Among the casualties in the stock market's downturn was the initial public offering market, which has remained nearly frozen since late August. Investor enthusiasm is now on the mend there also.

The first IPO in weeks is expected on Thursday with the floatation of eBay, an internet-based auction service.

In a sign of growing investor confidence, Goldman Sachs, the underwriter, said yesterday the offer price had been raised to a range of $16-$18 a share from the earlier $14-$16.



The deal is at just below $60m at the pricing midpoint, with 3.5m shares expected to be offered.

World stocks, Page 35

DoCoMo offer may yield $15.1bn

By Paul Abrahams in Tokyo

NTT DoCoMo, the mobile telecommunications group, will today announce a pricing range for the company's global share issue that will almost certainly make it the largest initial public offering ever.

The price range is expected to be between about Y3.3m and Y4.1m a share. The mid-range point of Y3.7m per share would make the issue worth approximately Y2,000bn ($15.1bn). That compares with the IPO of Nippon Telegraph and Telephone, DoCoMo's parent, in 1986, the previous largest, which generated $13.6bn.

At Y3.7m per share, the market capitalisation of the company would be about Y7,800bn or $58bn, making it the third largest company in Japan.

DoCoMo's board will meet this afternoon in Tokyo formally to approve the price range. Senior executives will then begin a series of presentations to investors in Japan, Europe and North America.

Pricing will be decided on October 12. The shares are scheduled to be listed on the Tokyo Stock Exchange first section on October 22.

The price range was decided after the joint global co-ordinators, Nikko Securities and Goldman Sachs, contacted more than 2,000 institutional investors in a pre-marketing exercise. Demand for DoCoMo, the world's largest mobile telecoms group, is understood to have been uniformly positive.

About 45 per cent of the shares will be sold to domestic retail investors, 25 per cent to Japanese institutions, 12 per cent in the US and Canada and 18 per cent in other countries, depending on demand.

DoCoMo is the world's biggest cellular network operator, and its subscriber base has expanded from 1.3m in March 1994 to more than 20m customers last month.

In the past three years, the compound annual growth rate of its earnings before interest tax, depreciation and amortisation has been more than 40 per cent despite Japan's worst recession in 50 years.

NTT, which owns 94.7 per cent of DoCoMo, is selling 218,000 shares, reducing its stake to 67.13 per cent. The mobile carrier is issuing 327,000 new shares. The proceeds are expected to eliminate most, if not all of DoCoMo's Y1,365bn debts.

INCREASED CO-OPERATION IS SEEN AS A SIGN THAT THE OLD ORDER OF RESOURCE NATIONALISM IS COMING TO AN END

Oil executives to meet for 'informal' talks

By Robert Corzine

The planned meeting next week in Venice of about 20 top executives from some of the world's leading international oil companies puts in question conventional wisdom about the structure of the industry.

Putting a relatively large number of chief executives together in a informal setting for two days of private talks is a departure from past practice, and comes at a time when the industry faces a crisis brought about by the collapse in crude prices and the global economic downturn.

Petroleum Finance Company, the Washington DC-based consultancy that organised next week's meeting, said it was not a direct response to the crisis. Nor would there be formal talks on the sensitive issue of oil prices.

But it is clear the world's biggest oil companies and oil producing countries are in a mood to talk.

Yesterday, Crown Prince Abdullah of Saudi Arabia invited top executives from nine US oil companies to a meeting in Washington on Sunday to discuss potential areas of "co-operation."

While some observers say that might signify nothing more than simply "having tea," Robin West, head of Petroleum Finance, sees it as another sign the "old order of resource nationalism" that has dominated the world's energy scene for more than 20 years is coming to an end, as companies and countries begin to seek new relationships.

Not surprisingly, the "relationships" weighing heavily on the minds of most western oil companies are mergers.

Last month's takeover of Amoco of the US by British Petroleum triggered speculation that other leading companies would follow suit, even though the industrial logic of second and third wave tie-ups may be less compelling than the BP/Amoco deal.

"It's got nothing to do with industrial logic," said one investment banker.

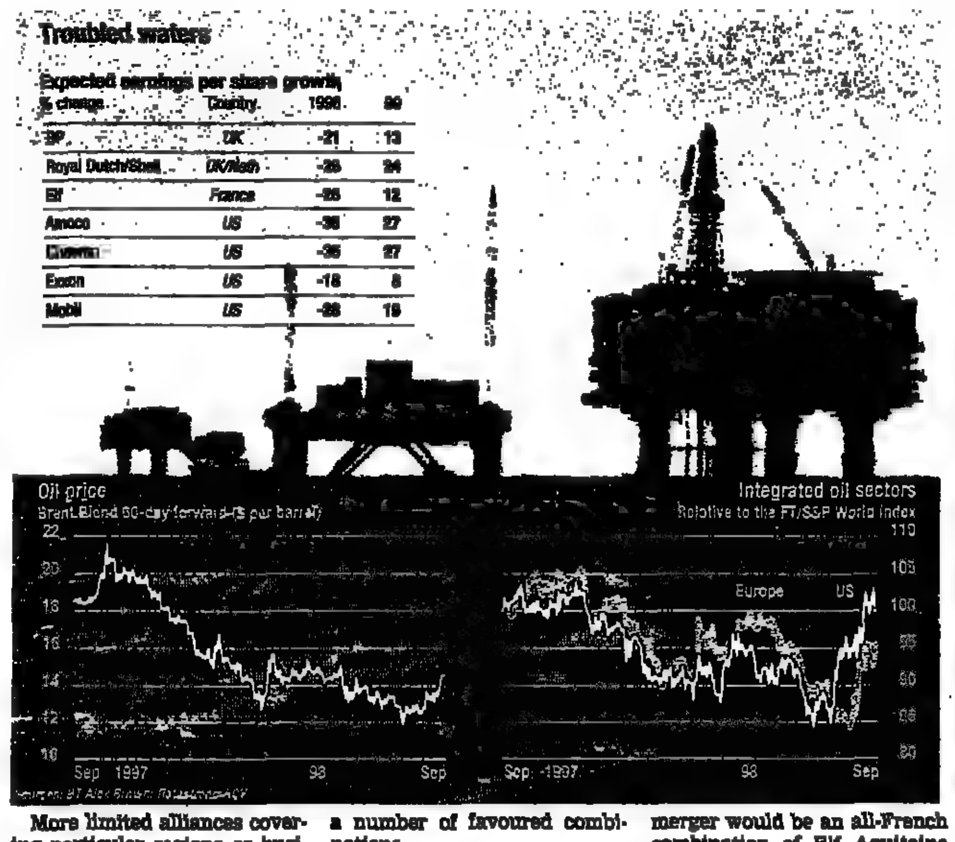
"They will be forced to merge because of the weight of investor funds" likely to be funnelled toward combined companies, if for no other reason than they should be able to cut their costs faster than their counterparts that have decided against consolidation.

The lure of full mergers also stems from the prospect that a carefully constructed deal, such as the BP/Amoco linkup, can attract an immediate boost in market capitalisation well before the cost cutting starts.

Troubled waters

Expected earnings per share growth

% change	Country	1998	99
BP	UK	-21	13
Royal Dutch/Shell	UK/Neth	-26	24
Elf	France	-25	12
Amoco	US	-36	27
Chevron	US	-36	27
Exxon	US	-18	8
Mobil	US	-26	19



More limited alliances covering particular regions or business lines are less likely to produce a sustained share price boost.

But they are easier to agree and still promise longer-term cost savings, albeit on a smaller scale than a full takeover or merger.

Such deals may appeal to companies barred from full mergers because of partial state ownership or political sensitivities about a cross-border or transatlantic tie-up.

Although any number of permutations for possible mergers are being talked about, there is a number of favoured combinations.

In the US there has been speculation over a tie-up between Chevron and Mobil, party because the two companies have about the same market capitalisation.

There has also been talk of an Exxon-Mobil merger. Industry executives believe that such a combination would be formidable, but that the difference in size between the two companies would almost inevitably lead to the demise of Mobil.

Many investment bankers say the most logical European merger would be an all-French combination of Elf Aquitaine and Total, although the two companies view each other as arch-rivals.

However, other analysts are predicting transatlantic mergers involving French and US companies could take place, even though such tie-ups may at first seem unlikely given the wide cultural gap between the two countries.

Alliances between Total and Arco and Total and Texaco are already being discussed as possible combinations.

Editorial Comment, Page 15

Bayer links with Millennium

By Graham Bowley in Frankfurt and Clive Cookson in London

Bayer, the German chemicals and drugs group, yesterday launched a $465m collaboration with Millennium Pharmaceuticals, the US gene-hunting company. The partners called their alliance "the world's largest to date in the field of drugs research".

Markets reacted positively to the prospect of Bayer gaining a new pipeline of gene-based products over the next decade. Its shares closed up DM2.45 at DM65.90 ($39.11) – shrugging off a separate announcement of a potentially serious setback to its development programme.

The company was forced to suspend clinical trials of metrifonate, a treatment for Alzheimer's disease, which was due to be launched in the US next year. Trials were delayed for at least three months, in consultation with the US Food and Drug Administration, after some patients showed signs of muscle weakness.

Metrifonate, which Bayer expected to generate peak annual sales of around DM700m, was one of the top three medicines in the group's pipeline. The delay could lose Bayer ground in the race to commercialise drugs that delay the onset of Alzheimer's symptoms.

Bayer is building up its health care business. The Millennium alliance follows an announcement last week that Bayer would buy the diagnostics business of Chiron, another US biotechnology company, for $1.1bn.

The German group expects to pay Massachusetts-based Millennium $465m over the five-year term of the partnership: $97m for a 14 per cent stake in Millennium and $368m in research funding, performance and licensing fees. In return Millennium will supply 225 biological "targets" for use in finding drugs to treat heart disease, cancer, pain, osteoporosis, liver and blood disorders and viral infections.

Millennium is a leader in genomics – discovering how genes work together to determine health or sickness. Bayer is the seventh international drug company with which it has negotiated a research and development collaboration.

Mark Levin, chief executive, said the Bayer deal would take Millennium's projected revenue from R&D partnerships above $1bn over the next five years or so.

Nokia, Ericsson shares lift

By Greg McIvor in Stockholm

Shares in Nokia and Ericsson rose sharply yesterday after the Finnish telecommunications group said it was "confident" about third-quarter profitability and its Swedish rival outlined plans for a management shake-up.

Nokia's upbeat assessment of current trading conditions, combined with an upgraded forecast for mobile phone subscriber growth, lifted morale among European telecommunications investors, whose confidence has been battered in the past week by profit warnings from Alcatel of France and Philips, the Dutch group.

At the Finnish company, Europe's biggest supplier of cellular handsets, the most-traded A shares jumped FM31.10, or 8.3 per cent, to FM406. Ericsson's B shares climbed SKr8 to SKr157.50.

Ericsson shares have lost 25 per cent of their value during the past three months amid fears the company is losing market share to Nokia in mobile phones. Analysts also regard the company as more exposed than its closest competitors to any downturn in China, its second largest market after the US.

Ericsson said yesterday its new strategy, to be unveiled next month by Sven-Christer Nilsson, chief executive, would improve its focus and bring it closer to customers.

Nokia, whose shares have continued to forge ahead in spite of stock market volatility, yesterday forecast that global mobile phone subscriptions would reach 1bn in 2005. About 250m people owned a mobile phone at the end of June this year, it said.

Jorma Ollila, Nokia chief executive, said "strong market development" in 1998 had reinforced its confidence in third-quarter prospects.

Ericsson, where profits growth has fallen behind Nokia's this year, said it had detected no change in its profitability during the third quarter. But Douglas Smith, technology analyst at Salomon Smith Barney in London, said Ericsson needed to sharpen its marketing strategy.

Separately, Ericsson was yesterday forced to admit that up to 10 per cent of its best-selling mobile phone models had a design fault that resulted in them suffering power failures.

World stocks, Page 38

MAGNETS SHAREHOLDERS WIN COURT AGREEMENT TO DROP FIVE DIRECTORS AT TROUBLED COMPANY

Institutions take control at YBM Magnex

By Edward Alden in Toronto

Institutional shareholders of YBM Magnex International, the troubled magnet maker suspended from the Toronto Stock Exchange, have wrested control of the board away from the company's previous management.

The move raises hopes the company's murky financial records may soon be clarified as YBM shareholders try to clear the way for the stock to resume trading.

In an agreement in an Alberta court, Jacob Bogatin, YBM chief executive, would drop five directors and add three new ones representing shareholder interests, giving the institutional shareholders a majority on the five-member board.

Wesley Voorheis, a lawyer representing Connor Clark & Lunn Investment Management, one of YBM'S largest shareholders, said the arrangement would allow shareholders "to address the issues facing the company on a fully informed basis".

The new board, which met for the first time yesterday, also includes Connor Clark director Gordon Macdougall and Toronto businessman Stephen Coxford. Remaining on the board are Mr Bogatin and Owen Mitchell, vice-president of First Marathon Securities, the Canadian brokerage.

Mr Bogatin said: "We hope that in the near future we can point to today's events as a catalyst that returns the company's shares to public trading."

YBM shares have been suspended on the Toronto Stock Exchange since May when it failed to file audited second quarter financial statements. The suspension came the same day YBM headquarters in Pennsylvania were raided by the FBI as part of a criminal investigation. No charges have been laid against the company or its management.

The company's auditors, Deloitte & Touche, resigned in June and YBM has been unable to find another auditor to verify its financial statements, which have been questioned by securities regulators. The company reached a market value of nearly C$1bn (US$654m) when its shares traded at more than C$20 earlier this year, but mutual fund companies holding the shares have since written their value down to between C$1 and C$3.

Mr Voorheis has said he intends to get to the bottom of the controversies quickly.

Lehman to repurchase more stock

By Tracy Corrigan in New York

Lehman Brothers, the US investment bank, yesterday reported a fall in third-quarter earnings, as previously indicated, and said it planned to repurchase 7.5m of its stock, on top of the 4.5m share repurchase authorised earlier this year.

Earlier this week, Moody's Investor Service, the US-based ratings agency, confirmed Lehman Brothers' long-term debt rating of A3, boosting the stock price.

Lehman's stock price has more than halved in the last two months as a result of concerns over financial market turmoil and rumours of financial difficulties at the firm, which Lehman has denied.

Lehman reported net income of $151m and earnings per share of $1.10 in the third quarter, down from $324m in the second quarter and $197m a year ago. Net revenues were $930m, and compensation and benefits remained at 50.7 per cent of net revenues.

The firm had warned of a reduction of $60m in net income due to the "impact of significant volatility in Russian and other markets". This included trading losses and additional credit reserves to offset the possible impact of counter-party exposures.

Richard Fuld, Lehman's chairman and chief executive, said on Tuesday that the move "clearly and positively underscores the ongoing financial strength and stability of the firm". However, Moody's had warned that Lehman's balance sheet leverage was higher than some of its peers.

Mr Fuld noted that despite a slowdown in underwriting towards the end of the quarter, Lehman posted its highest ever investment banking fees. However, analysts warned that given the market slowdown, this performance was likely to slide in the fourth.

Analysts also said that the effect of the buy-back plan would be minimal as the firm would have to issue new shares under employee compensation plans.

Investment banking revenues of $493m were 24 per cent above last year, while principal transaction revenues of $131m were 66 per cent down.

Ad blitz backs Unisys refocus

By Alison Smith, Marketing Correspondent

Unisys, the US computer and computer services group, is today beginning a $20m worldwide advertising campaign to launch a new brand positioning which focuses on the people it employs.

The campaign reflects the changes to the organisation since the appointment of Lawrence Weinbach as chairman and chief executive a year ago. He has taken Unisys out of the PC manufacturing business and refocused it on the enterprise server and computer services businesses. Last year, the company's service business accounted for 63 per cent of its $6.5bn sales.

It also follows marketing initiatives by other computer companies to move away from their traditional images and present themselves as organisations which are more approachable and put more emphasis on their employees.

The Unisys advertisements show people with heads replaced by computer monitors, who are solving client problems whether they are at work or not. They feature the line: "Unisys ... we eat, sleep and drink this stuff".

About half the total spending on the campaign will go on television advertising in the US, with around $5m being spent on print advertising in Europe. The additional cost of the launch roughly doubles the company's annual corporate advertising budget.

The company is planning a further "aggressive" campaign next year, and is re-designing its website to take account of the new focus.

Bozell Worldwide is behind the advertising.

Martin Sexton, vice-president of corporate communication Unisys EMEA, said when the research was presented to the company at the beginning of this year "one key response was that it was the quality of Unisys people that was keeping our existing clients with us".

Earlier this year, IBM launched a campaign for its global services division which had the aim of giving the business a human dimension. It incorporated IBM employees referred to as "e-business people".

George David: 'I am not afraid of being labelled a contrarian' Sinead Lynch

United stands firm in face of ill-wind

Group has long-term perspective unfazed by economic turmoil, writes **Peter Marsh**

Either George David is an indefatigable optimist, or he knows something that much of the rest of the world apparently does not.

The chairman and chief executive of United Technologies, one of the biggest US industrial companies, with interests from air conditioners to helicopters, is unfazed by the economic gloom which has seen stock prices slump around the world.

Claiming that financial markets have gone "goofy", Mr David says investors have failed to spot the underlying growth trends for much of international business, particularly in the US.

"This is likely to be the first recession in memory that has been induced by investor sentiment," says Mr David. "I am not afraid of being labelled a contrarian."

Upbeat comments by industrialists about their companies while the world crashes around them are not unknown. But in the case of United – which owns Carrier, the world's biggest air conditioner company; Otis, the lift maker; the Pratt & Whitney jet engine group; and the Sikorsky helicopter supplier – the company's record is enough to make even the most nervous investor give Mr David a sympathetic hearing.

Last year's net income, on sales of $24.7bn, was $1.07bn, double the $487m in 1993. In the past five years, the company's shares have outperformed Wall Street by nearly 40 per cent – even though the stock has come off its highs of early 1997.

Few analysts say the company, one of the most internationally-oriented US manufacturers, with 60 per cent of its revenues generated overseas, will be immune from the global shock waves. But David Pizzimenti of Schroder & Co believes United's "worldwide franchise of strong businesses" should leave it more unscathed than many companies, while Cai von Rumohr of Cowen & Co says Mr David's comments have "credibility" on account of the company's performance so far this decade.

Mr David – who became chief operating officer in 1992, taking over as chief executive in 1994 and chairman last year – is not letting talk of a global crisis put him off acquisitions. This year such spending is likely to total $1.3bn, double last year's figure. Deals have included the joint venture announced this month with Toshiba, under which Carrier will take control of the Japanese electrical goods company's air conditioning operations outside Japan, while taking a 40 per cent stake in the Japanese company's domestic air conditioner operations.

Otis has also recently acquired lift companies in Korea and the Philippines. All three deals, says Mr David, underline western companies' opportunities from the recent wave of business restructuring in some parts of east Asia.

Although both Otis and Carrier will probably see revenues fall this year from Asia (which is likely to provide about 16 per cent of United's total 1998 sales), Mr David says the longer-term growth prospects are still good. "The time-span we consider [in planning] is 25 years and over this period our business in Asia could easily double [as a percentage of total sales]."

As for Russia, where United has 9,000 workers, mainly at Otis, making it among the largest foreign employers there, Mr David says United's revenues this year will almost certainly be lower than 1997's $100m, but that this will be "immaterial" for the company as a whole. "You have to be patient. We are not going to abandon Russia," he says.

Mr David's overall confidence about United's prospects stems from what he says is the "process revolution" which has pushed up efficiencies in the company's factories during the 1990s.

Thanks to Japanese-style quality initiatives and just-in-time production, labour productivity in United's US factories has grown about 7 per cent a year since 1990.

"What is amazing is that we have still some way to go: we have achieved less than half what is possible [in terms of better efficiencies] in making the company more profitable."

To complete the job, United is setting up a training institute, called the Ito University, named after Yuzuru Ito, the company's Japanese quality adviser, to teach new production and management techniques to United's worldwide suppliers. The aim is to help United cut its supply costs by nearly $1bn a year (out of the $14bn spent last year) by 2001. To help with efficiencies, Mr David is also planning to cut its suppliers from 58,000 to 10,000.

As for Europe, from where United derives a third of its sales, Mr David is confident that economic conditions will remain fairly strong.

Intel presses on with Strong Arm

By Paul Taylor

Intel, the world's largest semiconductor manufacturer, plans to build a family of microprocessors designed for use in set-top boxes, handheld computers and consumer electronics based on the advanced risc microprocessor technology it acquired from Digital Equipment.

Craig Barrett, chief executive, said Intel planned to continue to use the Strong Arm technology in a wide range of devices, particularly in areas where low-power consumption is important. "We are pushing Strong Arm very hard in these areas," he said.

The Strong Arm technology was originally developed by Arm, a UK-based start-up, and has been used in a number of handheld machines – including the Apple Newton and Psion Series 5 – and other devices, including smart phones.

Intel acquired rights to the technology as part of its $700m purchase of Digital's chip-making operations which was completed this year as part of a partial settlement over a patent dispute between the two companies.

Since then, there has been speculation that Intel might abandon the technology in favour of its own. However Mr Barrett emphasised yesterday that Intel was continuing to work on new designs of the chip and planned "a new generation every year for the next few years".

Mr Barrett, who was speaking in London, also confirmed that Intel was laying off 675 employees at the Hudson, Massachusetts, chip-making plant which it acquired from Digital.

But he said the facility, which employs 1,600 people, would not cut its output of the advanced Alpha microprocessor chip and several other product lines.

The redundancies will form part of the 3,000 jobs Intel said in April it would cut from it 65,000 workforce.

ConAgra earnings slip to $109m

ConAgra, the foods group, saw first-quarter revenues rise but earnings slip, Reuters reports from Omaha.

It earned $109m, or 23 cents a diluted share, in the quarter to August 30. That beat analysts' expectations by 1 cent, according to First Call, but fell below last year's restated earnings of $118m, or 25 cents a per share. Sales climbed from $6.26bn to $6.48bn.

ConAgra said volume sales and operating profits rose in its frozen foods segment, while its food-service division also posted higher profits. Grocery products recorded higher operating profit. In refrigerated foods, operating profit fell 29 per cent and sales were unchanged.

Lower pork and beef raw materials prices were passed through at lower selling prices. The branded packaged meats business recorded higher first-quarter unit volumes and operating profit. A recent acquisition contributed to operating profit growth in the cheese and table-spreads business.

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Lehman to repurchase more stock

Intel presses on with Strong An

COMPANIES & FINANCE: EUROPE

STEEL INDUSTRY GROUP SEEKS PARTNERS OR BUYERS FOR ASCOMETAL AND UNIMETAL

Usinor puts speciality steels up for sale

By David Owen in Paris

Usinor, the French steel maker bidding to become Europe's biggest by buying a majority stake in Belgium's Cockerill Sambre, has put a large part of its speciality steels division up for sale.

Francis Mer, chairman, made the announcement yesterday as the group reported a sharp upturn in first-half profits in figures heavily coloured by one-off items and the application of new accounting standards.

The businesses concerned include Ascométal and Unimétal, the rod concern traditionally the company's problem unit. The decision to seek partners or buyers coincided with Unimétal's "painfully achieved" return to profit in the 1998 first half.

"We cannot do everything," Mr Mer said, explaining that the group had decided to focus on its flat carbon steel and stainless activities. He indicated he expected all operations related to the move to be completed by next spring. Speciality steels contributed FFr9.3bn ($1.65bn) to the group's first-half turnover of FFr38.2bn.

Net attributable profit more than doubled, to FFr2.04bn, which included a re-estimation of deferred taxes and a substantial depreciation of assets and goodwill. Without the application of new accounting standards, net income would have been just FFr1.58bn.

Income from operations advanced more than 35 per cent to FFr2.35bn. Flat carbon steels contributed the lion's share of this, with profit of FFr1.94bn on turnover of FFr21.1bn, against FFr1.12bn a year ago. Speciality steels contributed income of FFr506m, up from FFr49m, but stainless steels and alloys suffered a small FFr50m operating loss in a difficult market environment, compared with a profit of FFr383m.

Yesterday's figures included a FFr300m provision for restructuring the group's stainless steel operations, which could lead to 1,000 job losses. The company also plans to spend up to $105m to buy out minorities of J&L Specialty Steel in the US, of which it owns 53.4 per cent.

The group said second-half results would be less favourable than those of the first six months, although its full-year performance should show a clear improvement from 1997. Most plants were working at capacity, particularly those supplying the car industry, widely recognised as one of the group's strong points.

Mr Mer would not reveal how much Usinor was offering the government of Wallonia, Belgium's French-speaking southern region, for a majority stake in Cockerill Sambre, one of western Europe's last large, state-dominated steel makers.

Usinor was left as the sole interested party in the privatisation after Thyssen Krupp Stahl withdrew last week.

Deutsche Bank IT chief to retire

By Tony Barber in Frankfurt

Deutsche Bank, Germany's largest bank, said yesterday its management board member responsible for information technology, Michael Endres, wanted to retire from his post by the end of the year.

However, the bank denied German press reports of a wider shake-up at the top of the bank, which has gone through an unsettling time due to its exposure to the Asian and Russian financial crises, its involvement in the Nazi gold controversy and the defection of many of its investment bankers.

The bank particularly emphasised that Ronaldo Schmitz, board member responsible for investment banking, would keep his job. There has been repeated talk in Frankfurt's financial community that Deutsche's chief executive, Rolf Breuer, is dissatisfied with Mr Schmitz's performance, but the bank has brushed aside the rumours as nonsense.

Deutsche was rocked earlier this year by the defection of its 130-member Technology Group of investment bankers to Credit Suisse First Boston.

Mr Breuer played down the episode, saying it was inevitable that staff came and went, pointing out that the defectors represented only a tiny proportion of the bank's 75,000 employees.

The bank, said Mr Endres, 60, had previously expressed a wish to leave his job by the end of 1998.

Banking sector analysts said Peter Gerard, a Deutsche executive in charge of technology development, had long been tipped to replace Mr Endres.

However, the bank is keen to recruit outside talent – Hermann-Josef Lamberti, who is about to leave as head of IBM's German operations, is a front-runner.

Bertelsmann signals it may quit Premiere

By Frederick Stüdemann in Gütersloh

Bertelsmann, the world's third biggest media group, signalled yesterday it would withdraw from its digital pay-TV business in Germany if a solution were not found to consolidation in the sector.

Mark Wössner, chief executive, said: "Our intention is to bring this matter to a close in the next few weeks." He said that after years of delay because of fights with Kirch, the German broadcasting and programme distributing group, and vetoes by domestic and European Union competition authorities, Bertelsmann had reached the point where a decision had to be made.

Through its 40 per cent stake in CLT-Ufa, the Luxembourg-based broadcaster, Bertelsmann is a partner with Kirch in Premiere, a loss-making analogue pay-TV channel which is being upgraded to digital technology.

Plans by the two companies to increase their stakes in Premiere have fallen foul of the German cartel office, while an earlier proposal for a full-scale merger of their digital pay-TV activities in an alliance with Deutsche Telekom, the partially privatised telecoms group, was blocked this year by the European Commission.

Other board members said the impasse over the development of digital pay-TV was ruining the performance of CLT-Ufa.

Bertelsmann executives said solutions ranged from a complete exit from Premiere to the inclusion of an outside partner to satisfy the cartel office. Possible candidates include Vivendi of France, with which Bertelsmann already has joint ventures.

Bertelsmann said a settlement would not involve taking on the losses incurred by Kirch at DF-1, a digital

Mark Wössner: Bertelsmann has reached point where a decision must be made — Reuters

pay-TV company launched two years ago whose start-up costs have severely strained the privately held Kirch.

Negotiations between the two companies have been clouded by reports that Kirch is in talks with potential investors, including Rupert Murdoch's News Corporation, Mediaset of Italy, and Prince Alwaleed bin Talal of Saudi Arabia.

These have been used as a bargaining chip by Kirch, which is also trying to exploit Mr Wössner's apparent desire to reach a settlement before he stands down as chief executive at the end of next month.

Bertelsmann's sales in the 1997-98 financial year rose 2.4 per cent to DM22.9bn ($13.6bn). The figure was boosted by disposals and beneficial exchange rates. Pre-tax profits rose 3.5 per cent to DM1.7bn, although this included earnings from businesses which the group has since sold. With these stripped out, pre-tax profits were DM1.3bn.

Mr Wössner said the earnings were DM200m-DM300m below expectations, because of stagnation in the book and music markets and structural problems in the group's book club in Germany.

Veba to refocus after warning

By Ralph Atkins in Bonn

Veba, the German conglomerate which last month warned of a significant drop in net profits this year, is looking to spin off its Stinnes distribution and logistics company and to concentrate on just three business areas – energy, chemicals and telecommunications.

The Düsseldorf-based group confirmed yesterday it expected the planned stock market listing of 49 per cent of Stinnes to be followed by the flotation of the remaining shares within the next few years. Stinnes could have a value of about DM3bn ($1.78bn).

The revised strategy reflects the pressure on Ulrich Hartmann, chairman, to revive the earnings performance of Germany's fourth-biggest company, which has lost some of its lure as a shareholder-orientated group.

Isabelle Hayen, utilities analyst at Goldman Sachs in London, said the increased focus, and apparent intention to quit a main business, was "encouraging".

Veba announced last year plans for an initial public offering of 49 per cent of Stinnes, which is now expected early in 1999. Stinnes consists of large numbers of small subsidiary businesses that are not regarded as a good fit within the ultimate parent group. Stinnes is undergoing a restructuring which is expected to leave the group with sales of about DM25bn – compared with a total of DM82bn for the entire Veba group.

Last year, Stinnes reported after-tax profits of DM212m, on turnover of DM18.1bn. The timing and size of the sell-off would depend on market conditions.

Meanwhile, Veba said its investment priorities in the future would be concentrated on its three newly-identified business areas. Energy would cover its PreussenElektra and oil interests, and could see joint marketing of different energy sources.

Chemicals would cover its Degussa-Hüls interests. Telecommunications would include o.tel.o, its joint venture with RWE, the Essen-based conglomerate. Veba said there had been no personnel changes as a result of the strategic rethink.

Veba also denied reports it was planning to sell other businesses besides Stinnes. It was already overhauling its loss-making MEMC silicon wafer subsidiary.

● RWE, the industrial conglomerate, said yesterday it would pay a 10 pfennig "centenary bonus" on top of a planned dividend of DM1.70 a share for the year ended June. The jump, from DM1.60 last time, follows an increase in net profits by 10.1 per cent to DM1.43bn. Separately, RWE announced it was extending the contract of Dietmar Kuhnt, chairman, until the end of 2002.

Swisscom vows not to delay offering

By William Hall in Zurich

The flotation of Swisscom, Europe's biggest initial public offering this year, seems certain to go ahead on schedule in spite of a growing trend among other companies to delay their market debuts because of turmoil in the global financial markets.

Ulrich Gygi, director of the Swiss finance ministry, indicated yesterday there would have to be the equivalent of a "financial Armageddon" to prevent Swisscom's launch on the New York and Swiss stock exchanges on October 5.

The final price for the IPO, which is expected to raise SFr7.3bn-SFr9.1bn ($5.25bn-$6.55bn), will be set over the first weekend of October.

Bankers close to the book-building process say they have already received sufficient indications of demand to cover the offer.

The Swiss government's commitment to proceed with its IPO contrasts with some European companies, such as Spanish transport group Azkar and Austrian Airlines, which have postponed capital raising plans.

There has also been speculation that Goldman Sachs, the US investment bank, might have to delay its stock market flotation unless the demand for IPOs recovers rapidly.

Mr Gygi said yesterday: "There is volatility in the markets but telecom stocks have been pretty robust.

"The Swiss Performance Index may have fallen by over 25 per cent from its summer peak, but it is still the same as it was at the end of 1997 and over 50 per cent up on the level at the end of 1996," said Mr Gygi.

Initial reports suggest that the Swisscom issue has generated more interest among international investors.

Based on a price range of SFr330–SFr410, Swisscom is being sold on an estimated 1999 price earnings multiple of between 13 and 16.

This compares with an average multiple of 17 for northern European telecom stocks.

In terms of enterprise value as a ratio of earnings before interest, tax and depreciation, the most popular valuation yardstick for telecoms groups, it is being priced at between 6.2 and 7.4 times analysts' estimates, compared with a peer group average of 6.2.

Munich Re hidden reserves shrink

By Tony Barber

Munich Re, Europe's largest reinsurance group, said yesterday turbulence on world markets resulted in the value of total hidden reserves falling from DM90.7bn ($53.8bn) at the end of June to DM74bn about a week ago.

In a sign of increasing transparency about its activities, the company said the hidden reserves for its main reinsurance group were worth DM82bn on June 30. A managing board member, Heiner Hasford, described the subsequent fall as "certainly noticeable, but not in any way serious".

He said it was more significant that even a recent fall of 20 per cent in the DAX blue chip stock market index had not damaged Munich Re's financial strength.

Commitment to greater transparency, part of Munich Re's preparations for a possible listing in New York, London or Paris, was demonstrated in June when it said it would end the distinction between registered shares, of which there are 82m, and its bearer shares, of which there are only 3m.

It said the conversion of the bearer shares into registered shares would raise DM740m. With DM2.1bn from a share rights issue last month and another DM427m expected when shareholders pay for partly-owned registered shares, the company is raising almost DM3.3bn from its capital restructuring.

Ikea to create worldwide staff 'university'

By Tim Burt in Stockholm

Ikea, the world's largest furniture retailer, is planning to set up a company university to train managers and staff in its 149 stores in Europe, North America and south-east Asia.

Executives at the Swedish group have begun drawing up proposals for a "mobile campus", from which senior managers would conduct courses for Ikea's 40,000 staff in 29 countries.

"We will form a sort of Ikea university for training new and existing employees," said Anders Moberg, chief executive. "It would move around the world and adapt courses to the markets where we operate."

Mr Moberg said the scheme reflected a shortage of qualified retail staff, particularly in eastern European and Asian emerging markets where Ikea has expanded rapidly.

"In terms of financial resources, we could have expanded even faster. But the biggest challenge has been to get enough trained people to operate the stores," he said.

This year, Ikea is expected to open 11 stores employing more than 4,000 workers – including its first store in China.

Mr Moberg said turmoil in emerging markets and recessionary pressures in western Europe would not impede expansion. "We are proceeding with plans to open our first stores in Russia, for example, while in the UK, I would like to have six stores around London rather than three."

In eastern Europe, Mr Moberg said Ikea was developing a number of retail parks where it was leasing space to other retailers, including Tesco, the UK supermarket chain.

That expansion has been funded by sharply increased profits of SKr7.3bn ($931m) on sales of SKr46bn in the year to August 31 last year. In the next few days, Ikea is expected to release 1998 figures showing that sales have exceeded SKr50bn for the first time.

Mr Moberg, Ikea chief executive for the past 12 years, said improved training was vital to ensure that Ikea's Scandinavian brand was not diluted by the company's global ambitions.

Initially, several senior Ikea managers would be seconded to the so-called university as tutors.

Existing retail staff would attend refresher courses, while new employees in emerging markets would study marketing, logistics and customer relations.

"We find that many of our managers are strong in just one area, such as finance or purchasing," said Mr Moberg. "We need to give them a broader skill base. We will not use outsiders for this, but some of our most experienced managers will be moved into training."

NEWS DIGEST

FRANCE

Defence sales help to lift Lagardère by 17.5%

Lagardère, the French defence and publishing group, has announced a 17.5 per cent advance in first-half profits and predicted a significant increase for the full year. The company, which is set to play an important part in French defence restructuring by merging its defence interests with state-owned Aerospatiale, yesterday reported net attributable profit of FFr544m ($98.1m), against FFr463m the previous year. The result was achieved on sales up 10 per cent, or 7.4 per cent on a like-for-like basis, to FFr33bn. Operating income climbed 16 per cent to FFr1.61bn.

Defence played an important part in the upturn, with income from the group's high-technology sector, which includes both 50 per cent-owned Matra BAe Dynamics and 51 per cent-owned Matra Marconi Space, strongly ahead, reflecting progress on important export contracts.

The six-monthly improvement came in spite of a sharply higher tax bill – FFr833m against FFr380m – reflecting tax loss carry-forwards in the 1997 figure. This was compensated in part by FFr51m of non-operating income, compared with FFr185m in non-operating expenses logged the previous year.

The figures were published after the Paris stock market closed, with the group's shares ahead FFr2, or 1.2 per cent, at FFr167.50, recouping a small part of the previous day's heavy losses. **David Owen, Paris**

CORPORATE CLIENTS

Travellers to be offered new card

The first multi-purpose corporate card aimed at travelling business people is to be launched next month by three French groups and a US financial services company. The first cards – allowing holders to make payments, withdraw cash and store air miles – will be issued to corporate clients by the middle of next month. The French partners are Air France, the state-owned airline, banking group Crédit Lyonnais, which is due to be privatised next year, and Accor, the hotel group which operates 1,350 hotels worldwide, including the Novotel and Ibis chains. American Express, the US financial services group, is the fourth partner.

"Travel is the third biggest expense for companies," said Pascal Lamy, a board member of Crédit Lyonnais. The card, expected to operate like existing payment cards, will be accepted by most hotel chains, the consortium said. It will also allow cash withdrawals at all automated teller machines operated by Crédit Lyonnais and American Express. At a later stage, it is destined to replace the American Express Corporate card and Air France's "Fréquence Plus" air mile programme.

Travellers buying airline tickets with the card will be able to store Air France air miles on it. The airline will offer a 5 per cent discount on ticket purchases to all companies which provide the card to their employees and spend more than FFr50,000 ($8,851) a year on travel. Accor will offer discounts to card holders spending more than 20 nights a year in its hotels. **Samer Iskander, Paris**

WALLENBERG

Investor to relocate London unit

Investor, the main investment vehicle for Sweden's Wallenberg business empire, said yesterday it planned to relocate its new investments unit from London to New York as part of a strategy to increase its US holdings.

Officials said the move signalled an accelerating shift in Investor's portfolio towards smaller start-up companies and leveraged buy-outs. Investor has already indicated that up to 15 per cent of its SKr100bn ($12.7bn) portfolio will be weighted to smaller companies and buy-outs in the future. **Tim Burt, Stockholm**

ENGINEERING

Atlas Copco in US integration move

Atlas Copco, the Swedish engineering group, yesterday announced plans to fully integrate the operations of its US rental operations with those of Prime Service, the US equipment rental company acquired last year for $900m.

Giulio Mazzalupi, chief executive, said: "We are capitalising on the competencies the two companies currently have and creating a second solid business segment for rentals to industrial users." Atlas Copco's most commonly traded A shares rose SKr10.50 to SKr174. **Tim Burt**

SOVEREIGN ISSUES

Belgium introduces domestic franc bills

Belgium will today launch an expanded short-term treasury bill programme to include paper denominated in Belgium francs. The new programme follows earlier moves designed to develop the government bond market ahead of European monetary union.

Last November Belgium became the first country to issue domestic long-term government bonds denominated in foreign currencies – the D-Mark and French franc – as part of moves designed to attract a more international investor base ahead of Emu. Post-Emu, these foreign currency bonds will become interchangeable with an existing government bond denominated in Belgium francs known as OLO, issued since November 1997.

The existing short-term treasury bill programme was introduced two years ago and included paper denominated only in foreign currencies. Like the French franc and D-Mark denominated bills, the Belgian franc paper will issue bills with maturities of up to one year.

Jean-Pierre Arnoldi, administrator general at the Belgium treasury, said the introduction of domestic franc bills was designed to widen the country's debt market by attracting a new investor base. **Khozem Merchant**

BROADCASTING

TVP plans digital links

Telewizja Polska (TVP), Poland's state-owned broadcaster, is to link with private sector television stations to establish a digital platform to rival @ Entertainment's digital Wizja TV, which went on the air with a satellite direct-to-home service at the end of last week.

TVP this week signed a letter of intent with Polsat, a privately owned broadcaster, Aster City, the leader of an alliance of cable operators with around 800,000 subscribers, and Telewizja Canal Plus Polska, a pay-TV station which puts out terrestrial and satellite services.

Wizja TV already has access to 870,000 cable viewers through Polska Telewizja Kablowa, which is part of @ Entertainment. @ Entertainment has raised around $325m in the past 18 months to fund its cable and satellite venture in Poland. Lew Rywin, the head of TCP, said yesterday he expected a final shareholders' agreement for the platform to be signed "within 10 days".

Originally, the talks included Telekomunikacja Polska SA (TP SA), the national telecoms operator to be privatised. "TP SA have yet to make up their mind about the venture," Mr Rywin said. **Christopher Bobinski, Warsaw**

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PROPERTY HK DEVELOPER'S PROFIT HALVED

Sino Land hit by HK$1.3bn provisions

By Louise Lucas in Hong Kong

Sino Land yesterday became the latest Hong Kong property developer to report hefty provisions and stock market losses which halved net profits for the year to June 30.

The group, one of the more aggressive developers, made provisions of HK$1.3bn (US$168m) against properties and took a HK$562.97m loss on the sale of long-term listed investments.

Net profits fell from HK$1.85bn to HK$908.68m. The full-year dividend payout will also be halved, from 26 cents to 13 cents.

Sino Land helped buoy profits – and, more importantly in the current environment of high interest rates and tight credit and cash flow – by selling properties which had been earmarked for leasing.

Total sales more than doubled, from HK$2bn to HK$5.43bn, despite lower prices.

More developments have been put on the market since the June 30 year-end and, according to Sino Land, have yielded good results.

Property prices in Hong Kong have fallen about 45 per cent from their peak last June, and further falls of up to 30 per cent are expected.

Prices began to plunge with the onset of the Asian financial crisis: Hong Kong, alone of the main freely convertible Asian currencies, held on to its fixed exchange rate, bearing the brunt through asset deflation.

Despite the increased sales activity, rental income remains a big contributor to Sino Land's income. Completed rental properties of some 6.4m sq ft represent 40 per cent of the group's total land bank. Gross rental revenue grew 7.7 per cent to HK$1.21bn.

Robert Ng, chairman, said occupancy rates and rents were respectable. "Overall leasing performance has been satisfactory with the successful fresh letting of new buildings while maintaining an effective programme of retaining existing tenants."

New tenants signing leases include department stores, despite the depressed retail environment.

Jusco of Japan and Carrefour of France are both taking up more space in the newly renovated Tuen Mun Town Plaza in the more remote New Territories.

Mr Ng said that while the coming years would be challenging, Sino Land would continue to invest in the property market when opportunities arise.

Earnings per share fell 53.88 per cent, from 64.4 cents to 29.7 cents; stripping out the provision, earnings per share rose 13 per cent to 72 cents.

HIH Insurance makes A$242m bid for FAI

By Gwen Robinson in Sydney

HIH Insurance, the Australian general insurer, yesterday launched a surprise takeover bid for FAI Insurances, Australia's sixth largest general insurer, furthering the trend toward consolidation in the country's insurance industry.

HIH, formerly part of the Winterthur Swiss insurance company, said it had acquired a 14.3 per cent stake in FAI from the Adler family, the target's largest shareholder, and intended to make an offer for the remaining ordinary shares.

It plans to raise A$150m (US$87m) in a converting note issue to finance the bid. Rodney Adler, FAI managing director, said the family would accept HIH's offer for its remaining 16 per cent.

The bid, which values FAI's 317.2m issued shares at about A$242m, was part of HIH's plan to become the leader in the Australian general insurance market, said Ray Williams, managing director.

"It's going to become extremely difficult for mid-size players in the future," he said.

HIH will make a scrip offer to FAI shareholders of one HIH share for every three FAI shares, or a cash-and-scrip alternative of A$2.25 with one HIH share for every six FAI shares.

Based on Wednesday's closing price of A$2.29 for HIH shares, the offer values each FAI share at 76.3 cents, a premium of about 47 per cent over FAI's closing price of 52 cents on Tuesday.

FAI shares closed up 19 cents at 71 cents, well up from recent lows of 41 cents.

Mr Adler's decision to sell was prompted by the wave of rationalisation sweeping the Australian insurance industry, which he said could have left FAI "a small house in an ocean of skyscrapers".

Colonial this year acquired the Australian and New Zealand operations of UK groups Prudential Corp and Legal & General, while AMP launched a A$3bn hostile bid for GIO Australia Holdings.

For HIH, the deal would make it the largest general insurer in Australia, with A$2.67bn in gross written premiums – well above the A$2.04bn of NRMA, the nearest rival, the company said.

FAI made a net loss of A$4.76m last year, against A$15.74m profit a year ago.

Mr Williams said he expected cost savings of about A$30m in the first year of combined operations.

● Marsh Electrical of the US yesterday made a takeover bid for Metal Manufactures, an Australian metal products company. The offer of A$2.05 a share valued the group at A$290m. The bid was announced after the close of trading.

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Pakistan's foreign banks keep nervous eye on IMF

Talks about the country's monetary policy may bring about in an end to the dual exchange rate, writes **Farhan Bokhari**

The stakes are high for Pakistan's 21 foreign banks as the country prepares to conclude its first round of loan talks with the IMF, likely to last until the weekend.

Both sides are understood to be working towards a new loan agreement to help the country stave off an impending foreign-debt crisis and revive foreign and domestic investments.

Government officials say that the talks in Islamabad with a fund mission could continue on the sidelines of the IMF-World Bank annual meetings.

Although foreign banks account for less than 1 per cent of the country's domestic and foreign branches, they can claim almost 22 per cent of the total bank deposits.

In the past five years, they have generally remained profitable, concentrating on relatively more secure areas such as financing Pakistan's international trade and lending to multinational companies.

But the fund mission is expected to raise a number of issues on Pakistan's monetary policy, including a new dual exchange rate. Introduced in July, the new rate was designed to halt a steep fall in the rupee exchange rate.

Pakistani exporters are allowed to convert their foreign earnings under the Fibor (floating interbank rate), which is the average rate between the official exchange rate and the open market rate.

Since the early summer, the open market rate had risen to almost 30 per cent above the official rate at its peak. The fund may want to revert to a more realistic exchange rate of not more than 8-10 per cent higher than the open market rate, which prevailed until the early summer.

Many analysts say a devaluation of the rupee as part of a new agreement is likely in a bid to boost exports and prevent a speculative fall of currency.

For banks, that could mean an end to the recent uncertainty across the currency markets and may help attract more depositors in rupee-denominated instruments. However, the long-term outlook depends on how fast Pakistan can overcome the fall-out from its recent policy of suspending seven years of liberal foreign-exchange policies.

Under a 1991 liberalisation policy, residents were allowed to maintain foreign-currency deposits and freely withdraw their money. But on May 28 this year, after its nuclear tests, Pakistan froze up to $11bn deposited in those accounts.

The freeze was ordered as the government's own liquid foreign-exchange reserves at the time were just above $1bn. Officials conceded privately that in reality the foreign-currency deposits no longer existed. Foreign banks had deposited the money with Pakistan's central bank, which gave it to importers to meet the country's international trade deficit.

While many critics argue that Pakistan may not be able to revive foreign currency depositors' confidence for several years, others see it as an opportunity.

Zakir Mehmood, country head, Credit Agricole Indosuez, the French bank, says: "It is a misconception that dollarisation was a help to foreign banks. We can now move to quickly develop a local rupee deposit."

Foreign banks may even have an edge over Pakistan's public-sector banks, which are reeling under the pressure of bad debts and whose financial restructuring could take years.

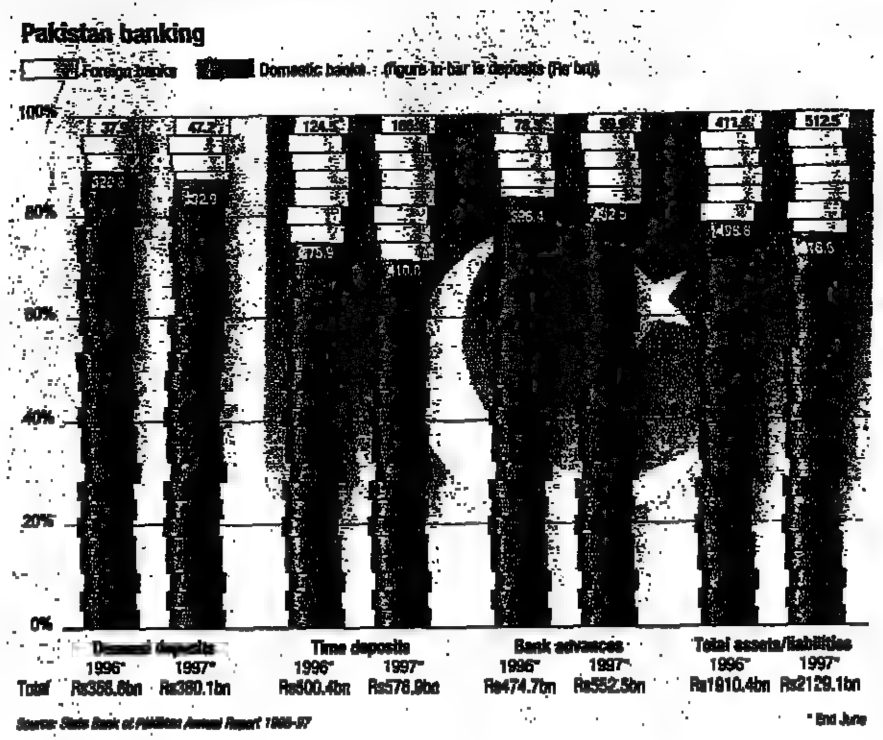
"Clients would want banks with quality management and offering the best returns, and we would be in the best position to offer all that," says Zahid Rahim, country head, Standard Chartered Bank. Mr Rahim's bank is one of the increasingly aggressive players.

He says that foreign banks have so far "only scraped the surface". His expansion plans for the next year include launching a £7m ($11.8m) investment in information technology. He is also convinced that foreign banks have an edge over domestic banks in giving better quality of service.

However, the future also depends on Pakistan's economy. There is concern that the IMF-led reforms could stagnate economic growth in the short term as painful restructuring begins.

"The next year or so could be painful. Like the rest of Pakistan, banks could suffer from the effects of an economic slowdown before things get better," says one analyst.

Pakistan banking



* End June

Indonesia to take stake in First Pacific Company

By Louise Lucas

The Indonesian government is to acquire a 5 per cent stake in First Pacific Company in a deal with the Salim Group, which controls the Hong Kong-listed Asian conglomerate.

Salim Group, which owns 54 per cent of First Pacific, is transferring a package of assets to a company controlled by the Indonesian government to settle Rp48,000bn ($4.32bn) worth of outstanding liabilities.

The bulk of these liabilities comes from credit extended to PT Bank Central Asia, which the Salim family jointly owned with two children of former president Suharto.

The bank, the largest private one in Indonesia, was taken over by the Indonesian Bank Restructuring Agency this year.

A small part of the debts are to be settled with the First Pacific stake which, at yesterday's close of HK$2.325, was worth HK$272m (US$35.1m).

First Pacific insisted the deal would not affect management or corporate governance of the company.

A 5 per cent stake does not make the Indonesian government eligible for board representation, although the six Salim representatives – out of a total of 13 – could be reduced.

Hong Kong analysts said it was unlikely a 5 per cent stake, even were it to be sold quickly, would be a significant overhang on the stock.

However, it is unclear whether the Salim deal draws a line under its obligations to the government; and pressure to sell more assets could focus on First Pacific.

Kia auction cancelled again

By John Burton in Seoul

A second auction for South Korea's bankrupt Kia Motors and its truck division Asia Motors was cancelled yesterday after bidders demanded more debt write-offs than had been approved by bank creditors.

A similar demand for large debt write-offs caused the first auction for Kia to be aborted at the beginning of September.

Creditors must now decide whether to accept additional debt write-offs or try to sell Kia as part of an industrial restructuring plan among Korea's three remaining carmakers – Hyundai, Daewoo and Samsung – which all submitted bids for Kia on Monday.

Banks had earlier offered to write off Won2,900bn ($2.1bn) of debt principal out of Kia's total estimated debt of Won13,000bn, while proposing a rescheduling of debt payments.

PAL closes as union talks fail

By Tony Tassell in Manila

Philippine Airlines ended operations at midnight yesterday after failing to reach agreement with its unions on a last-minute proposal to save the national carrier.

Joseph Estrada, the Philippine president, said last night that his government had tried everything to prevent the airline from closing. He added that PAL's majority shareholder, Lucio Tan, the Filipino-Chinese businessman, had "given up" on the airline and was no longer interested in it.

The government was preparing yesterday to minimise the economic fall-out of a PAL closure on the country through disruptions in such areas as air freight, tourism, postal services and cheque clearing.

Three smaller rival airlines – Air Philippines, Asian Spirit and GrandAir – have pledged to double their collective seat capacity within the next 25 to 30 days.

PAL has been incurring steep losses, struggling to cope with its $2bn debt pile amid falling demand in the wake of the regional financial crisis, the slide in Asian currencies against the dollar over the past year and a 22-day strike by pilots in July.

COMPANIES & FINANCE: UK

INSURANCE MERGER WITH AXA EQUITY LAW OF FRANCE MAY BRING ANNUAL SAVINGS OF $73m

Sun Life beats dividend expectations

By Andrew Bolger, Insurance Correspondent

Sun Life and Provincial Holdings, the UK insurance arm of France's Axa, backed an upbeat trading statement with an unexpectedly high increase of 15.8 per cent in its interim dividend.

Sun Life, which merged with Axa Equity Law last year, also said the enlarged group now expected to enjoy annual savings of £44.4m ($73m) from the merger, compared with its original estimate of £37m.

The group's operating profit before tax rose to £178.2m in the six months to June 30, up 9 per cent on a pro forma basis.

Lord Douro, chairman, said: "In the last 12 months we have merged three pairs of companies and have produced considerably greater savings than we had expected. At the same time, we have maintained our margins and profitability in the intensely competitive life and pensions market."

As expected, bad weather hit Axa Provincial, the group's general insurance business, which saw pre-tax profits fall from £76.6m to £70m.

"The underwriting loss of £16m was commendable when compared with our competitors," said Lord Douro. "Weather-related claims cost £9.3m in the first half."

Axa Sun Life, the life and pensions business, increased its profit before tax and exceptional items by 17 per cent from £88.5m to £103.6m.

New business grew as a result of particularly buoyant single premium sales, but regular premium sales were slightly lower than the previous year as a result of intense competition.

Lord Douro said: "We continue to place profitability before market share. Indeed, we have maintained the margin on new business in 1998 at the same level achieved throughout 1997."

Axa Sun Life asset management raised pre-tax profits by 46 per cent to £13.9m, supported by "buoyant markets".

The group said: "Looking ahead, the severe correction in investment markets which occurred in August will restrict comparable revenue growth in the second half of the year if markets remain at their current levels."

Sun Life and Provincial Holdings and Axa will spend £40m over four years in backing football's FA Cup tournament.

Mark Wood, Sun Life's group chief executive, said the deal was an excellent opportunity to promote the Axa brand both in the UK and internationally.

Earnings per share rose 8 per cent to 15p (13.9p). The interim dividend is 4.4p (3.8p). Sun Life's shares rose 10p to 554p.

Markets go on a bender and Diageo is nursing a headache

The food-and-drinks group reports its first full-year results today. John Willman reports on progress nine months into the merger

It's the morning after the night before for Diageo, the food-and-drinks group that produces Johnnie Walker scotch whisky, Gordon's gin and Smirnoff vodka.

Nine months into the biggest merger in the global spirits industry, the share price has fallen more than 30 per cent from its peak of 795p in July – underperforming the market by 30 per cent. At last night's close of 518p, down 7½p, it is back more or less to the level of May last year, when Guinness and Grand Metropolitan announced their decision to merge.

Diageo is well on track in bringing together the two drinks operations and reducing overheads. But with economic turmoil spreading from Asia to the former Soviet Union and now threatening Latin America, investors fear the group's unrivalled penetration of emerging markets has switched from asset to liability.

"Those markets have been the backbone of growth for Diageo," says Mark Puleikis, drinks analyst at Merrill Lynch. "But no one now feels confident that they know when that growth will resume."

Today Tony Greener, chairman, and John McGrath, chief executive, announce Diageo's first full-year results. A small drop in pre-tax profits is expected from £1.93bn to about £1.85bn ($3.05bn) – in line with analysts' expectations.

The group has taken care to keep the markets well briefed on the likely impact of the economic turmoil, notably with a year-end trading statement issued on July 6. It said then that Asia would contribute less than £100m of profit in the year to June 30, compared with £170m two years ago.

Elsewhere, however, the picture was better. Almost half the group's operating profit comes from the buoyant US market, where the Pillsbury food business is dominant in refrigerated baked goods and Burger King has capitalised on disarray at McDonald's, the biggest fast-food chain. And the quarter of profit which comes from Europe excluding the UK has benefited from the economic growth in the region.

That leaves two areas of concern:

- The UK, with 9 per cent of profit, where the gathering economic gloom may have reduced sales of spirits and Guinness stout and beers
- Diageo's "rest of the world" category accounting for 12 per cent of profits – more than half of them from South America.

Fears that South America will catch the Asian contagion are behind several profit downgrades in recent weeks, according to Alexandra Oldroyd of Morgan Stanley Dean Witter. When there was a previous downturn in Venezuela, Guinness lost about 40 per cent of sales of premium scotches and 30 per cent of standard scotches – only partially compensated for by a 30 per cent jump in cheaper whisky brands. "People will trade down," says Ms Oldroyd.

Despite the difficult market conditions, Diageo is on course to make the £195m of cost savings promised by the end of the third year of the merger and has already identified more than half the 2,000 planned job losses. It is expected to raise the target for cost savings today, with Goldman Sachs estimating the final figure could be as high as £250m.

Jack Keenan, head of the United Distillers and Vintners spirits division, has completed a review of the portfolio and today's results may include details of the "half dozen" brands he intends to sell.

The group has already been forced to sell Dewar's scotch whisky and the two Bombay gins to squeeze the merger past the regulators – the latter with some regret. But Bacardi-Martini was prepared to spend £1.15bn to acquire the brands, almost double analysts' estimates of what they would fetch.

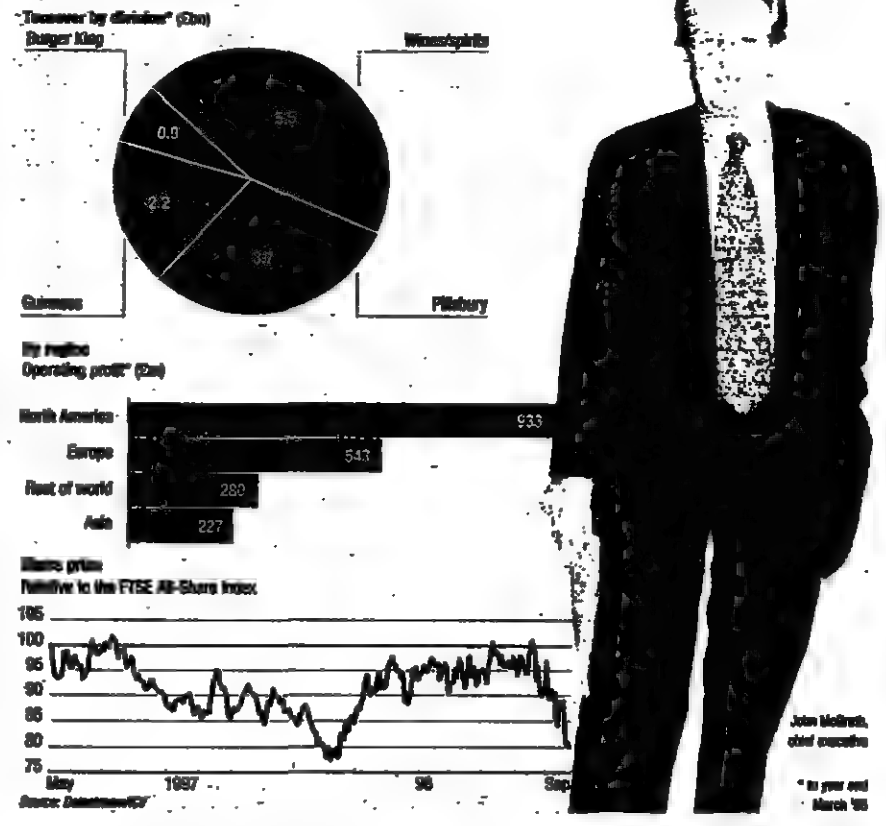
Mergers often offer third parties the opportunity to back out of joint ventures. So far, the only serious problem for Diageo has been with José Cuervo, the Mexican company that makes the world's most popular tequila and wants to renegotiate the agreement signed with GrandMet for distribution rights in North America.

Diageo has asked the US courts to rule on this and says it is sure the merger does not terminate the agreement. But losing the brand would cost it more than £50m a year gross profit and leave a gap in its portfolio in the fastest growing spirits category in the US.

Overall, however, the merger news is positive and cannot be blamed for Diageo's crashing hangover. Yet uncertainty over the world economy seems likely to prolong the agony.

Mr McGrath has repeatedly said volatility is a price Diageo has to pay if it is to be in the emerging economies which offer the best growth prospects. The important thing is to have a balanced geographical representation, so that a downturn in one region is offset by progress elsewhere.

The problem for the group today is that the spreading turbulence threatens to upset that balance.



John McGrath, chief executive

* to year end March '98

Ryanair may halt Stansted growth

By Jonathan Ford

Ryanair, the Irish low cost airline, intends to halt its expansion at London's Stansted airport if BAA, Stansted's owner, increases landing charges next year to compensate for lost retail earnings when duty free sales are abolished within the European Union.

Michael O' Leary, chief executive of Ryanair, said the proposed increase, 15 per cent over two years, was unacceptable.

"If BAA goes ahead with this, we will not start any more new services through Stansted," he said. "We will go to an airport that is more growth orientated."

Mr O'Leary said this could be another UK airport, such as Luton or Birmingham, or one on the continent. However, Ryanair would continue its existing Stansted services, he said.

BAA said it would not rescind the increase in landing charges if the abolition of duty free shopping goes ahead next year.

Charges at Stansted, along with BAA's other London airports, Heathrow and Gatwick, are subject to price regulation by the Civil Aviation Authority. The CAA approved the one-off £55m ($90m) increase to defray the loss of duty free revenues.

"Because of the tough price caps we have endured since privatisation, our London airports have among the lowest landing charges in Europe," BAA said.

Stansted is the hub airport for Ryanair's growing European network. This year, the airline launched services to six continental destinations, bringing its total to seven. It accounts for about a third of Stansted's passenger traffic.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Avis Europe	6 mths to Aug 31	302	(267)	54	(40.1)	6.9†	(5.5)	1.5‡	Nov 25	1.25	-	3.75
Barratt Devs	Yr to June 30	807	(714.4)	93.3	(70.1)	27.1	(19.8)	6.7	Nov 20	6	10	9
Biocompatibles	6 mths to June 30	8.85	(6.7)	19.1L♠	(12.2L)	24.6L	(15.6L)	-	-	-	-	-
Bowthorpe	6 mths to June 30	289	(260)	46.1	(40.3)	13.16	(12.41)	3.7	Dec 7	3.43	-	11.23
Brake Bros	6 mths to June 30	343.4	(331.1)	13.7	(10.8)	18.3	(14.2)	3.5	Dec 11	3.2	-	11.2
British Biotech	3 mths to July 31	0.504	(0.257)	9.21L	(9.02L)	1.4L	(1.4L)	-	-	-	-	-
Dawson Intl	6 mths to July 4	77.7	(103.8)	23.5L	(6L)	11.9L	(2.1)	nil	-	1.05	-	2.75
Densitron	6 mths to June 30	20.5	(19.5)	1.03	(1.01)	0.69	(1.33)	nil	-	0.6	-	1.6
Edinburgh Fund Mgrs	6 mths to July 31	14.7	(10)	7.35♥	(11.4♥)	18.3♦	(26.5)	8	Nov 2	8	-	25
Euro Sales Finance ф	Yr to June 30	6.6	(3.87)	1.36	(0.563)	11.8†	(9.4)	1	Nov 27	-	1	-
French Connection	6 mths to July 31	50.7	(41.7)	3.53	(3.06)	11.2	(9.7)	1	Oct 29	0.75	-	3.25
Kier	Yr to June 30	749.6	(677.2)	10.8♠	(8.6)	22.7†	(18.7)	5.4	Dec 15	4.6	8	4.8
Lilleshall	6 mths to June 27	48.4	(49.2)	0.227L♠	(2.37♥)	2L	(4.9)	1.5	Nov 27	1.85	-	5
McBride	Yr to June 30	468.4	(478.7)	34.1	(29.1)	14.6	(12.5)	5	Nov 20	4.65	7.5	7
M-R	Yr to June 30	46.8	(39.4)	6.9♥	(5.6)	9.2♦	(7.3)	2.7	Nov 27	2.6	4.05	3.8
Northamber	Yr to June 30	294.5	(274.7)	8.81	(6.8)	17.3	(14.4)	3	Dec 3	2.4	4.2	2.6
Oliver	6 mths to Aug 1	33.5	(34.6)	1.62	(1.89)	7.08L	(7.46L)	-	-	-	-	nil
Quality Software	6 mths to June 30	18.1	(13.4)	1.29	(0.18)	5.4	(1.4)	nil	-	nil	-	nil
Ryan Hotels §	6 mths to July 30	15.9	(14.4)	2.82	(1.92)	3.53	(2.56)	0.6	Nov 16	0.625	-	1.875
Science Systems ф	6 mths to June 30	12.1	(8.79)	1.25	(1.16)	4.7	(4.3)	0.582	Dec 31	-	-	0.59
Silentnight	6 mths to Aug 1	115.7	(107.6)	7.1	(6.82♠)	10.59	(8.92)	3.7	Jan 4	3.3	-	11.5
Southern News ф	Yr to June 27	127.9	(105.4)	24♥	(14.1♥)	76.17	(51.83)	17.5	Nov 10	15	25	20
Steel Burrill	6 mths to June 30	19.3	(18.6)	0.042♠	(0.878L♠)	0.17	(1.93L)	0.75	Nov 5	0.75	-	1.5
Sun Life and Prov	6 mths to June 30☆	-	(-)	175.2	(126.1)	15†	(15.1)	4.4	Nov 20	3.8	-	11.7
United Carriers	6 mths to June 30	61.2	(65.6)	5.95L♠	(1.29)	19.9L	(3.1)	nil	-	1.7	nil	3.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Henderson Eurotrust	Yr to July 31	281.29	(189.04)	0.407	(0.41)	2.31	(2.33)	1.5‡	Nov 6	1	2.5	2
Schroder Japan	Yr to July 31	57.56	(77.83)	0.659L	(0.838L)	0.53L	(0.67L)	-	-	-	-	-
Schroder Ventures	Yr to June 30*	215	(189.2)	2.06	(1.52)	2.06	(1.58)	1.3	Dec 3	1.92	1.3	1.92

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. фAim stock. ‡Foreign income dividend. ♦On reduced capital. *Comparatives 13 mths to June 30. §Irish currency. ☆Comparatives restated.

Bowthorpe sees slowdown

By Andrew Edgecliffe-Johnson

Bowthorpe, the maker of specialist electronic devices, expects growth to slow in the second half, but believes investing more in product development should help protect it from the worst of any economic downturn. The shares fell 34p to 323½p.

The company yesterday reported pre-tax profits for the six months to June 30 up 14 per cent to £46.1m ($76.1m), despite a £1.6m dent from currency translation and the knock-on effects on all three divisions of the Asian turbulence. Turnover rose 15 per cent to £289m.

Nicholas Brookes, chief executive, said the group had begun to see the benefits of last year's reorganisation of 100 subsidiaries into five business groups. He added that Bowthorpe, which has gearing of 17 per cent, could afford another £150m of acquisitions.

Telecommunications had become its second largest market after construction, and he predicted that growth would come from high-margin software activities.

Network systems, which supplies interconnectors for the construction industry, test equipment for telecoms customers and aerospace data products, showed the strongest growth, with a 40 per cent rise in operating profit to £26.4m, and operating margins of 18 per cent.

New interconnection products, telecoms contracts and aerospace acquisitions offset weak Japanese trading and reduced demand from US groups exporting to Asia.

The sensing division, which makes temperature sensors for computers, improved operating profits 24 per cent to £8.4m, but Mr Brookes said the 12.4 per cent operating margin could be improved further.

Cable management profits rose 4 per cent to £11.4m.

Orange expands to Hong Kong

By Alan Cane

Orange Communications, the UK-based mobile phone company, yesterday extended its global branding strategy by announcing the launch of the Orange brand in Hong Kong.

The company is licensing the brand to Hutchison Telecom, a subsidiary of Hutchison Whampoa, Orange's largest shareholder with 49.2 per cent of the stock. It will compete with six other operators including Cable and Wireless, Xin Gan Xian and Hutchison's own CDMA operation. CDMA is separate from Hutchison's two GSM (global system for mobile telecoms) services on which Orange will run.

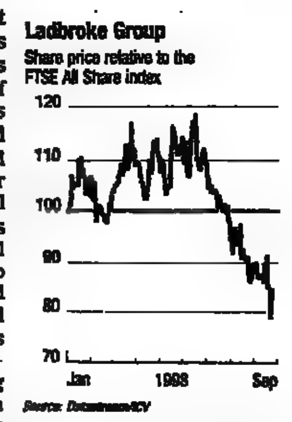
Orange says its brand licensing strategy is designed to strengthen the awareness of Orange in new markets. Last week, Orange said it was licensing the brand to Partner Communications, an Israel-based consortium which is shortly to go live with Israel's first GSM network.

Orange is little known in Hong Kong although it has been running surreal advertisements of the kind it used in the UK before its 1994 launch.

The Hong Kong service is expected to be launched immediately. Orange shares closed up 37p at 600p.

COMMENT

Ladbroke/Coral



Like most of its punters most of the time, Ladbroke has backed the wrong horse. Its unconditional acquisition of Coral bookmakers from Bass has backfired. True, it could not have known it had outbid the competition by 15 per cent. But clinching the deal by going unconditional was folly given likely political pressure for a referral to competition authorities. And now that the Monopolies and Mergers Commission has indeed blocked the sale – albeit for fairly uncompelling reasons – Ladbroke is in a pickle. In market conditions less favourable than last December, it is hardly likely to turn a profit on the forced disposal. But with any luck, it will be able to avoid a fire-sale. True, the stipulation that Coral must either be sold in one piece or in a way that restores a third national player limits Ladbroke's flexibility. And if market turmoil discourages financial buyers, the only credible trade players left are the Tote and Stanley Leisure. They could, of course, bid up the price, but a joint carve-up on the cheap – giving Stanley the required national presence – seems more likely.

With the leisure sector de-rated by nearly 40 per cent this year, Ladbroke will be hard pressed to recoup the £421,000 per shop it paid for Coral. But as its shares' 21 per cent underperformance since the start of the year reflects, its ill-judged flutter has been adequately punished.

Food retailers

With enemies like the Office of Fair Trading, the supermarkets surely have little to fear from renewed investigation into their activities. Unless, of course, vicious spin-doctoring counts as analysis. Yesterday's report into the buying power of retailers was not even about the food retailers in particular; and what little information it did furnish on the sector was both dated and unpersuasive. That is not to say there is no case to answer. Declining returns on capital are hardly evidence of the supermarkets making hay, but there is a case that planning regulations have created local monopolies. The blame for that, of course, lies with government, not the retailers. Given the opportunity to open new stores and raise the competitive stakes, the supermarkets would pile in (scaring shareholders in the process). The OFT will do consumers a favour if it devotes time to this issue, not a thicket of academic abstractions.

Avis Europe pushes through price increases

By Jonathan Ford

Avis Europe, the car rental group, raised prices by 3.6 per cent in the first half of the year – the first time it had increased rental rates since 1994.

Alun Cathcart, chairman, said the group pushed through increases in about half its territories, including the UK, Spain and the Benelux countries. "We have been recovering increasing fleet costs through productivity gains for the last four years so it was pleasing to get an increase on the prices side," he said.

The group has been seeking to raise rental rates since last autumn, when it said "cautious growth" was possible because competition was easing in the European car rental market. This reflected the fact that most of its rivals are now quoted companies with shareholders to satisfy.

However, Mr Cathcart said while the group's expectations had been borne out, pricing remained a sensitive issue for the industry.

Avis reported pre-tax profits up 62 per cent to £36m ($59m) in the six months to June 30. Expressed in Ecu, profits were 72 per cent higher. The results were ahead of forecasts and the shares rose 22p to 223½p.

Volumes rose by 10.4 per cent, helping revenues to rise by 8 per cent to £252.1m. In Ecu terms, sales rose by 16 per cent.

Together with price increases, a 5 per cent improvement in productivity helped Avis to increase operating margins from 16.8 per cent to 19.5 per cent.

Mr Cathcart said he remained confident about the outlook for the year despite the economic slowdown in the UK, which represents about 20 per cent of the group's business.

He said this was compensated by continued economic growth elsewhere in Europe and increases in European air travel. "The group's performance is closely linked to the GDP growth rate and the lastest European figures still show growth of 2.7 per cent next year."

The group's airport business increased turnover by 18.4 per cent against 14.3 per cent for its town centre outlets.

Investors were reassured by comments from Avis that it was not exposed to the vagaries of the UK used car market, which experienced falling prices in the first half.

EURO PRICES

EQUITIES

Rate hopes as Europe rises again

EUROPEAN OVERVIEW

By Philip Coggan, Markets Editor

European shares moved higher for the second successive session as investors awaited a speech from Alan Greenspan, the chairman of the US Federal Reserve, which they hoped would point to interest rate cuts.

The FTSE Eurotop 100 index rose 67.39, or 2.9 per cent, to 2,390.04 while the broader Eurotop 300 gained 28.63 to 1,039.2. For the second day running, the FTSE EBloc 100 index, which comprises stocks in countries planning to join the single currency, outperformed the others, gaining 28.55, or 3.4 per cent, to 858.77.

The rebound in the overall market helped some of the sectors which have been most badly hit since the correction began in mid-July.

Information technology enjoyed another 7 per cent gain, with SAP up Ecu 38.3 to Ecu 473.31 in the preference shares, and Cap Gemini, Ecu 8.4 higher at Ecu 118.53, rallying after recent weakness.

In electronics, Alcatel, the French telecoms equipment group which saw its shares savaged after last week's profits warning, rebounded Ecu 8.5 to Ecu 86.63 after publishing details of a buyback of 10 per cent of its shares. The sector as a whole jumped 5.2 per cent.

The financial group, battered over the last two months by its exposure to emerging market debt, gained 3.5 per cent, with CS group up Ecu 9.8 at Ecu 118.39 and UBS Ecu 11.2 ahead at Ecu 251.86.

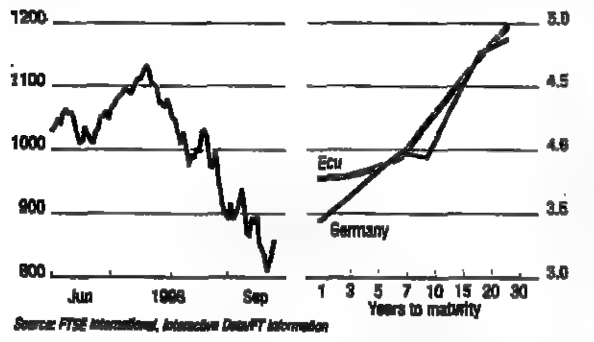
Another strong day for French construction group Bouygues, Ecu 11.2 ahead at Ecu 155.91, helped that sector gain 7.4 per cent to be the best performer of the day.

In automobiles, Fiat shares were flat at Ecu 2.39 despite Tuesday's late profit warning. The Italian group's shares had fallen ahead of the statement. The sector gained 3.5 per cent, with the help of a Ecu 37.5 rise to Ecu 562.98 in BMW.

Statistical adjustments distorted the performance of the only sector to show a significant fall on the day – media. In fact, the sector's stocks performed quite well, especially Elsevier which gained Ecu 0.7 to Ecu 13.69 on bid rumours.

More Emu coverage on the Business and the Euro page

FTSE Eurobloc 100
Index



Bond yield curve
Per cent (September 23 1998)

Source: FTSE International, Interactive Data/FT Information

FTSE Actuaries Share Indices — European series
Produced in conjunction with the Faculty and Institute of Actuaries

September 23

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	P/E adj	Total return (Ecu)
FTSE Eurotop 300	1039.20	+2.83	+28.63	2.89	23.01	1067.55
FTSE Eurotop 100	2390.04	+2.90	+67.39	2.69	34.64	854.79
FTSE Ebloc 100	858.37	+3.44	+28.55	2.35	14.08	870.37

FTSE Eurotop 300 Regions; FTSE Eurotop Industry Sectors: [illegible]

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%: [illegible]

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%: [illegible]

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2390.0	2405.0	+67.0	[illegible]	2390.0	52	5169
Mar	-	2413.5	+57.0	-	-	0	117

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2250 C	2250 P	2300 C	2300 P	2325 C	2325 P	2350 C	2350 P	2375 C	2375 P	2400 C	2400 P	2425 C	2425 P	2450 C	2450 P
Oct	198	61	161	75	143	83	127	92	111	101	97	113	84	125	72	138
Nov	254	112	229	129	205	138	189	148	174	158	160	169	147	179	134	191

Est vol total - Prev day's open interest total 5,219 . Premiums shown are based on settlement prices.

OTHER INDICES

	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	2871.56	2782.61	2709.99	3670.82	2574.81	3670.82	2709.99
DJ Euro Stx 50	2820.29	2728.32	2658.27	3658.48	2466.81	3658.48	2658.27
MSCI Europe	(u)	1011.67	983.69	1315.66	860.50	1316.69	510.76

Source: Extel/part of FT Information. *Subject to revision next day. (u) unavailable.

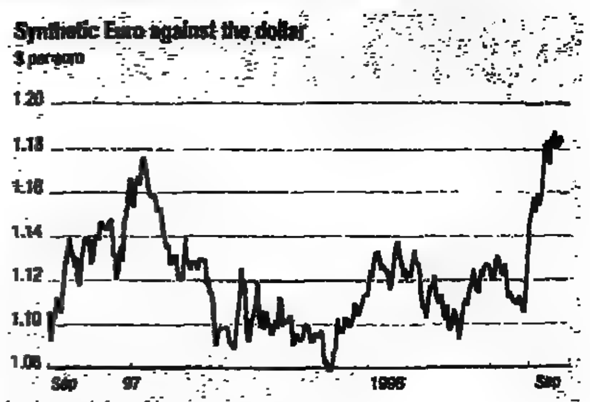
FTSE EUROTOP 300

Name | Price (Ecu) | Chge +or- | Mkt cap Ecu(bn) | Vol (m) | Yld — ALCOHOLIC BEVERAGES; AUTOMOBILES; BANKS RETAIL; BREWERIES, PUBS & RESTAURANTS; BUILDING MATERIALS & MERCHANTS; CHEMICALS; CONSTRUCTION; DISTRIBUTORS; DIVERSIFIED INDUSTRIALS; ELECTRICITY; ELECTRONIC & ELECTRICAL EQPT; ENGINEERING; EXTRACTIVE INDUSTRIES; FOOD PRODUCERS; GAS DISTRIBUTION; HEALTH CARE; HOUSEHOLD GOODS & TEXTILES; INFORMATION TECHNOLOGY; INSURANCE; INVESTMENT COMPANIES; LEISURE & HOTELS; LIFE ASSURANCE; MEDIA; OIL, INTEGRATED; OTHER FINANCIAL; PAPER, PACKAGING & PRINTING; PHARMACEUTICALS; PROPERTY; RETAILERS, FOOD; RETAILERS, GENERAL; SUPPORT SERVICES; TELECOMMUNICATIONS; TOBACCO; TRANSPORT; WATER: [illegible]

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES: [illegible]

Synthetic Euro against the dollar



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE: [illegible]

BONDS

INTEREST RATE SWAPS: [illegible]

EUROZONE CORPORATE BONDS: [illegible]

GOVERNMENT BOND SPREADS vs ECU: [illegible]

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU: [illegible]

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "In" currencies.

Leumi International Investments NV
US$75,000,000 Guaranteed Floating Rate Notes 2000

The interest rate applicable to the above Notes in respect of the interest period commencing 24th September 1998 has been fixed at 5.6875% per annum. The interest amounting to US$285.95 per US$10,000 principal amount of the Notes and to US$2859.55 per US$100,000 principal amount of the notes will be paid on 24th March 1999 against presentation of Coupon Number 17.

Bank Leumi (UK) plc
Issuing and Paying Agent

Midland Bank plc
(incorporated with limited liability in England)
US$500,000,000 Undated Floating Rate Primary Capital Notes

The Rate of Interest has been fixed at 5.6875% p.a. The interest payable on the relevant Interest Payment Date March 24, 1999 against coupon No. 27 in respect of US$10,000 nominal of the Notes will be US$285.95.

Global Agency and Trust Services, Citibank, N.A. London
September 24, 1998
CITIBANK

St. George Bank Limited
US$250,000,000
Floating Rate Notes 1999

The notes will bear interest at 5.85% per annum for the interest period from 24 September 1998 to 24 December 1998. Interest payable value 24 December 1998 will amount to US$147.88 per US$10,000 note.

Global Agency and Trust Services, Citibank, N.A., London
24 September 1998
CITIBANK

NBD BANCORP, INC
US$100,000,000
Floating rate subordinated notes due 2005

Notice is hereby given that for the interest period 24 September 1998 to 24 December 1998 the interest rate has been fixed at 5.8125%. Interest payable on 24 December 1998 will amount to US$146.93 per US$10,000 note.

Agent: Credit Agricole Indosuez Luxembourg

هكذا من الأصل

TRANSFER PRICING

Time to tackle the most taxing issue

Companies should review their transfer pricing policies ahead of Emu to deal with the effects of the euro, says **Jim Kelly**

The pledge given by European Union finance ministers in October 1996 that the transition to a single currency should not affect most businesses from a tax point of view is likely, in retrospect, to be resoundingly wrong.

While individual participating states will be able to legislate to stop adverse tax effects – for example, from the crystallisation of exchange rate differences on January 1, 1999 – there is growing evidence that the advent of the Ecu will have a more profound impact on tax strategy.

Initially, the area most affected will be transfer pricing – the price charged by a company for any goods, services, or intangible property which it purchases internally – usually within a multinational group or a company which trades with cross-border subsidiaries.

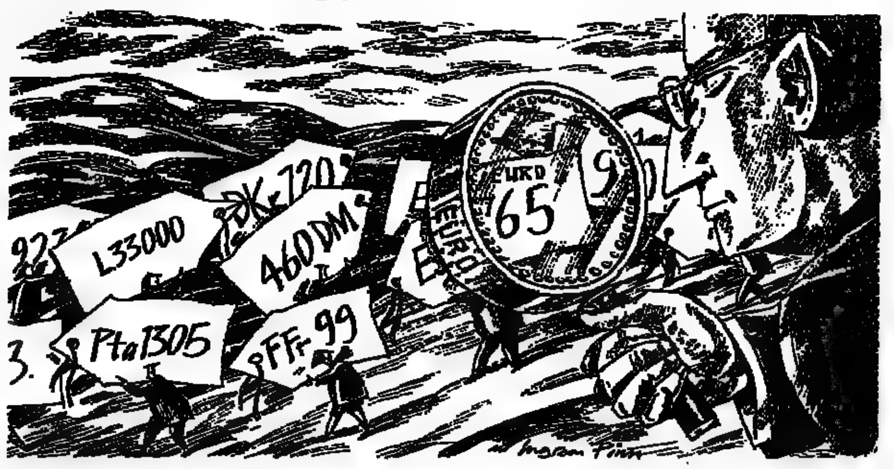
Notional prices are attached to these transactions to allocate costs to the different countries in which a company operates. Once costs are known it is possible to work out taxable profits in each individual country in which the company operates.

Surveys show that transfer pricing is the single tax issue at the top of most finance director's agendas as different fiscal authorities, from the IRS in the US, to the Inland Revenue in the UK and the National Tax Administration Agency in Japan, compete to secure what they see as a "fair share" of multinational company profits.

Disputes between fiscal regimes over transfer pricing can result in challenges to a company's transfer pricing documentation – and massive adjustments in tax bills. One company – which has never been identified – recently settled with the UK Inland Revenue a £1bn adjustment in a one-off payment.

The euro will affect transfer pricing in two ways. First it will disrupt the existing transfer pricing structure of large companies, which will have to decide how to price goods across Europe now that the customers will be able to make quick comparisons in prices denominated in euros.

Conversion to the euro will also lead to price changes – especially for smaller price-sensitive items – where a rounding up or down is required. All these factors will lead to changes in profits earned in each participating country.



A survey by KPMG of 300 multinational companies with more than 5,000 employees found that 73 per cent expected the range of prices of its goods in different participating countries to narrow while 11 per cent expected them to go up, 49 per cent down, and just 4 per cent expected them to remain stable. An unhealthy 26 per cent were uncertain of the price consequences of the Euro.

The second, and more fundamental, impact of the euro will come from the clarity it will bring to transfer pricing structures. Fiscal authorities throughout Europe – and in non-participating states – will find it much easier to challenge assumptions and attempt to secure for themselves a "fairer share" of the tax paid.

Joy Svasti-Salee, international tax expert with KPMG based in London, takes the example of a T-shirt which sells for different amounts in five EU states – FFr109, Pta1995, DM25.95, £8.99, and L32,000. Converting those prices to Ecus (forerunner of the euro) produced a range from Ecu 12.10 in Spain to Ecu 16.6 in Italy.

Say, for the sake of the argument, the T-shirt was made in India, exported to Rotterdam and distributed by road.

The transfer pricing documentation filed by the company – based in, say, Germany – would involve a complex justification of its allocation of profit and loss which would rely heavily on exchange rate differences.

"The use of a single currency will . . . make tax audits on transfer pricing more efficient," said Stephen Dale, a tax expert with PwC in Paris.

He believes companies should review their transfer pricing policies now. "They should also prepare their arguments justifying pricing policies both in the past and future in order to be able to defend their policy as well as any possible changes caused by the single currency."

All this comes at a time of great uncertainty about the way transfer pricing rules are enforced. The OECD has agreed transfer pricing guidelines based on the "arm's length" principle – that goods and services should be charged as if with a disconnected third party. But the devil is in the detail and enforcement of these rules is uneven.

Tax authorities are ever keener to make companies take on the burden of judging their tax liabilities and justifying them – and facing penalties if they are later judged to be wrong.

Companies view with particular horror moves towards penalties based on the tax bill – as in transfer pricing a 10 per cent penalty on a large adjustment could put some companies out of business.

The UK has been particularly active – reflecting to some degree the fact that its corporation tax system was outdated in international terms, especially when compared with the US. It has extended the new "self-assessment" system for individuals to companies. The result is that companies must assess their own transfer pricing liabilities – and face penalties if they are judged retrospectively to have got them wrong.

'The use of a single currency will make tax audits on transfer pricing more efficient'

These developments have been mirrored to a greater or lesser degree across Europe and in other leading industrial nations – the US having revamped its transfer pricing policies in the early 1990s. France, for example, amended its transfer pricing regulations in 1996 imposing stricter information requirements and specific tax penalties for non-compliance.

There has been a marked increase in the German authorities interest in tax audits focused on transfer pricing – especially in the financial services sector. But Germany, like several other countries such as Belgium, have begun to enter APAs – (Advanced Pricing Agreements) – in which companies are able to clear their transfer pricing submission with fiscal authorities before putting in final documentation.

In the rest of Europe the picture is the same – from Greece's action in 1997 to introduce thresholds on transfer payments allowed in areas such as royalties, to Spain's 1996 legislation enshrining the OECD guidelines and making transfer pricing audits part of every corporate audit, to new rules in Hungary allowing the tax authorities to directly adjust transfer prices.

"Transfer pricing is the key tax issue of the 1990s and companies, especially multinational companies, must get their house in order ahead of Emu because of the transparency it will bring and the greatly increased powers of the various fiscal authorities," said Svasti-Salee.

Shifting focus from country to sector

A manager's guide to the Euro

I keep hearing that when the euro is introduced next January, European investors are suddenly going to switch their investment focus from countries to industrial sectors. Is this true?
The general idea is correct, but the process is unlikely to be that sudden or dramatic. Country selection will remain a significant factor for many European investors for some time yet.

What's going on here?
The creation of a single currency for 11 European countries will allow investors in those countries greater freedom to invest across borders. Many institutions are restricted in their portfolio allocation by rules that a large proportion of their assets and liabilities match in the same currency. Emu will allow them to diversify their portfolio within the Euro-zone without currency risk.

Why does this mean a shift from a country to a sector focus?
Euro-zone investors are expected to treat the Emu area as many already treat their domestic markets, allocating their portfolios by sector and changing their weightings in accordance with the economic outlook for those sectors. For example, in the current financial turmoil, an investor might lighten his weighting of Euro-zone banking stocks.

Is there evidence investors are starting to think this way?
Yes. Surveys of European fund managers suggest a majority will switch to a sectoral approach. In a recent poll by investment bank Goldman Sachs and the Watson Wyatt consultancy, 67 per cent of clients said European equity portfolios would in future be organised by sector.

So what role will remain for country selection?
It is naive to believe distinctions between Euro-zone nations are simply going to disappear on January 1. A common currency will not obliterate differences such as political and economic systems, tax regimes, labour regulations and pay. All these factors will remain significant for investors. They may make one country *more* vulnerable than another to unexpected events or, in analysts' jargon, to "asymmetric shocks". And while many of the largest Euro-zone companies are multinationals, exposed to economic conditions around the world, others are highly dependent on conditions in their domestic markets.

Furthermore, smaller companies, which are not included in the big trans-European stock market indices and are highly vulnerable to their own economies, will still be treated largely on a country basis. Private investors are likely to focus on domestic markets and their indices. All this means that investors will still have to consider country risk, even within the Euro-zone.

What about other European countries?
Good point: for all investors – whether from the Euro-zone or outside – the European investment area is much broader than the "Emu-in" nations, which account for just over 50 per cent of the region's market capitalisation. That leaves almost half the market in countries such as the UK, Switzerland and Sweden, where currency risk will remain a very significant factor.

Another drawback to focusing only on the Euro-zone is that its representation of European industrial sectors is very skewed relative to the region as a whole. For example, the Euro-zone nations contain just 15 per cent of the health and personal care sector, and 39 per cent of consumer goods, but around two-thirds of basic industries and capital goods. Because of the skewing problems, many investors will want to construct pan-European sector-based portfolios.

When will the move to sectors take place?
It is already happening, but do not expect a Big Bang in January, with fund managers rushing to buy and sell shares to change the composition of their portfolios. For many this would be self-defeating, since selling shares would crystallise a large capital gains tax bill on the domestic stocks they have held for a long time. Heavy share purchases at this time would also drive up the price of the stocks they wanted to buy. Markets tend to be illiquid around the turn of the year and the birth of the euro is likely to accentuate this. Fund managers seem more likely to invest surplus cash flow to fill in sector gaps over a period of months, or years.

And where does this leave country asset allocation?
The signs are that many fund managers will accept that Europe is in a transitional period from country selection to sector selection and will combine both techniques in a matrix investment model. Sectoral techniques may predominate, but investors will want to keep a close track on companies' sensitivities to country risk.

As Jagdeep Bains, a portfolio trading expert at Merrill Lynch, told a recent conference in Zurich organised by FTSE International, the global index company partly owned by the FT: "The world is moving in the direction of sectors, but it may take longer than we think."

Martin Dickson

Comments about the weekly Business and the Euro page can be sent by e-mail to: international.companies@ft.com

Meeting on Russian domestic debt today

By Clay Harris in London and John Thornhill in Moscow

Western banks are expected to meet Alexander Shokhin, Russian deputy prime minister, today to discuss proposals for restructuring the short-term domestic debt on which the government has effectively defaulted.

The finance ministry said it would discuss proposals it is believed might offer foreign investors an increased cash element in roubles for their holdings of GKOs (treasury bills) and OFZs (medium term fixed-rate bonds). Domestic GKO investors are also expected to attend the meeting.

Foreign investors are believed to have sunk between $10bn and $15bn into GKOs, accounting for a third of the market. Some banks estimate the value of their GKOs has fallen to 3 cents on the US dollar.

Economists from Deutsche Bank, Credit Suisse First Boston, Merrill Lynch and Lehman Brothers, met Mikhail Zadornov, acting finance minister, yesterday for talks described as "workman-like" by Russian news agencies.

Deutsche, speaking for 17 western banks, said "meaningful discussions" had not been possible so far because of "uncertainties surrounding the composition of the government".

The banks again urged the government to extend the deadline for elections for early redemption of GKOs and OFZs from tomorrow.

It was "essential for the Russian government to begin talks with foreign creditors before taking any further unilateral decisions on restructuring the GKO/OFZ debts".

Widespread fall in prices

GOVERNMENT BONDS

By Khozem Merchant

Prices fell across the board yesterday as investors remained on the sidelines while equities staged another modest recovery. The main focus was on the testimony to the Senate budget committee by Alan Greenspan, chairman of the US Federal Reserve.

Opinion was mixed on whether Mr Greenspan would signal that US interest rates were about to fall, with the balance in favour of no change to the current regime. The Fed chairman hinted as much when he indicated that the impact of economic turmoil in emerging markets was sufficient to keep US inflation in check.

That also appeared to be the view in the US Treasury market, where prices fell ahead of his comments. The 30-year bond was down $\frac{4}{32}$ to $104\frac{22}{32}$ at midday, yielding 5.18 per cent. The two-year note was up $\frac{1}{32}$ at 100⅞, yielding 4.65 per cent.

Earlier, European markets had moved lower in line with GERMAN BUNDS. Analysts said the market was taken by surprise by publication of the Bundesbank's fourth-quarter issuing intentions, which showed it would borrow DM45bn in 10-year and 30-year bunds, more than expected.

"It is obviously an attempt by the Bundesbank to take advantage of the current low yields," said Philip Tyson, strategist at HSBC Markets.

The December future settled 0.49 lower at 113.71, with 535,000 contracts traded on the DTB. The yield on 10-year bunds rose to 3.97 per cent. The latest data on inflation and producer prices collectively confirmed the low-inflation picture.

Mr Tyson said the underlying tone of bond markets remained positive, in spite of the current drift. "The basic environment for bonds is still constructive. Bonds have been rallying on the large degree of uncertainty in markets; it will require another fresh crisis to boost them further," he said.

UK GILTS also weakened on the back of firmer equity prices, showing little desire to move ahead before the Bank of England's next interest rate meeting, in spite of growing speculation that a rate cut might be forthcoming.

The December future settled at 114.66, down 0.54, although activity on Liffe was light with just 50,000 contracts traded. In the cash market, the yield on the 10-year benchmark gilt rose to 5.66 per cent.

Enel in deal for E1bn over 10 years

INTERNATIONAL BONDS

By Vincent Boland and Edward Luce

Enel, Italy's state-owned electricity company, yesterday broke through the gloom in the international bond markets with an E1bn offering – the equal largest euro-denominated bond ever issued by a company.

The 10-year bond, which was lead-managed by Merrill Lynch and Paribas, came after an extensive and well-publicised marketing campaign by the borrower.

Officials at other banks said it was well timed and priced – at a yield spread of 38 basis points over the OAT – to succeed. It was trading about a basis point tighter than its re-offer spread last night. EdF, France's electricity utility, also issued an E1bn bond earlier this year.

Massimo Brunelli, Enel's chief financial officer, said the issue reflected the company's belief that bond markets would become a more important source of financing than bank loans after the introduction of the euro.

"We see ourselves as a bond issuer rather than as a bank borrower. The sooner you get into the market and establish a benchmark, the better," he said. Proceeds will be used to restructure existing debt issues and pay back bank loans that "in terms of maturity and interest rates do not suit us".

The INTER-AMERICAN DEVELOPMENT BANK joined the ranks of AAA-rated borrowers tapping the huge demand for high-grade bonds. It raised £150m by issuing a 10-year bond priced to yield 70 basis points over the 10-year gilt, in line with where comparable sterling issues were trading, said a banker at Barclays Capital, lead manager.

The issue met demand from a range of UK institutions, while European buyers, which had been sidelined for some time from the sterling market because of the currency's strength, also showed interest. "The issue was big enough to be liquid," he said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Province of Ontario	750	5.50#	99.406R	Oct 2008	0.35R	+85(5¾%May08)	Goldman/Salomon SB
Federal Home Loan Banks(b)	500	5.80#	104.047	Sep 2008	0.10	+59(5¾%May08)	Salomon Smith Barney
■ D-MARKS							
KfW(c)	1bn	5.00(s)	104.90R	Jan 2009	0.225R	+41(i)	Deutsche/Merrill Lynch
■ STERLING							
Fannie Mae(d)	150	6.875	102.69	Jun 2002	0.175	+58(7%Jun02)	Merrill Lynch International
Inter-American Dev Bank	150	5.75	99.585R	Oct 2008	0.325R	+70(9%Oct08)	Barclays Capital
KfW International Finance(f)	50	5.55(s)	99.362	Jun 2021	0.45	-	JP Morgan Securities
■ FRENCH FRANCS							
BNG(g)	1bn	5.375	105.623R	Jun 2013	0.40R	+36(i)	Paribas/SG
■ EUROS(e)							
Enel	1bn	4.80	99.354R	Oct 2008	0.325R	+38(i)	Merrill Lynch/Paribas
World Bank	80	4.04	100.00	Oct 2008	1.40	-	Daiwa Europe
■ CANADIAN DOLLARS							
BNG	100	5.25	99.90R	Oct 2003	0.25R	+16(5%Sep02)	TD Securities
■ DANISH KRONER							
GenFinance Luxembourg	400	(h)	102.27	Nov 2008	2.00	-	Danske Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price, fees shown at re-offer level. b) Fungible with $1.6bn. Plus 27 days accrued. c) Fungible with DM4bn. Plus 180 days accrued. d) Fungible with £1.55bn. Plus 114 days accrued. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Fungible with £400m. Plus accrued. g) Fungible with FFr3.5bn. Plus 128 days accrued. h) 5% to 10/11/03, then 6%. i) Over interpolated yield. s) Short 1st coupon.

S&P and Toronto exchange in venture

By Scott Morrison in Toronto

Standard & Poor's and the Toronto Stock Exchange are to develop index derivative products based on shares traded on Canada's largest equity market.

The move, expected to result in the marketing of jointly-branded derivative products, signals S&P's expansion into Canada and should provide Toronto-listed companies with greater global exposure.

The Toronto exchange, which accounts for 80 per cent of all trading in Canadian equities, said the aim was to develop highly liquid indices that would serve as a strong base for related derivative products.

The joint venture reflects a global expansion of stock market index benchmarks and growing competition among index providers to supply them. The competition is most acute in Europe, where FTSE International and Dow Jones have launched a series of equity market indices and derivatives products to coincide with the introduction of the euro next year.

In addition to being investment performance measurements, equity indices are used as the basis for a wide range of products, such as index funds, certificates of deposit, futures and options.

The Toronto exchange, which traded C$423bn worth of shares in 1997, offers investment products based on the TSE35 and TSE100 indices but none based on its benchmark TSE300 index.

The two organisations would not speculate on which products will be offered, but they are likely to be based on the benchmark index and sector indices.

LIFFE APRIL LAUNCH FOR NEW PLATFORM

Electronic trading to start earlier

By Edward Luce and Vincent Boland

The London International Financial Futures Exchange yesterday said it would bring forward by two months the launch of its electronic trading platform from June to April next year.

The move, which comes eight weeks after the launch of a top-to-bottom review of Liffe's strategy by Brian Williamson, its new chairman, disappointed some in the market. They had been hoping the introduction of electronic trading would coincide with European Monetary Union in January.

They also pointed out that the switch of products from the "open-outcry" trading floor to the new screen-based system on Liffe would be staggered, with several derivatives contracts remaining on open outcry until June or July, six months after the start of Emu.

Edward Condon, director of European derivatives at Credit Suisse First Boston, said the delay would give the Deutsche Terminbörse – Liffe's main competitor and a wholly electronic exchange – scope to establish a lead over Liffe in the market for euro-denominated contracts, which is likely to provide the bulk of turnover for both exchanges from next year.

The DTB has overtaken Liffe as the largest derivatives exchange in Europe in the past three months. Last month it traded 50 per cent more contracts (at 28m) than Liffe, a mirror image of the situation 12 months earlier.

The cheaper costs of trading on an electronic system have been an essential part of the DTB's success in winning market share from Liffe.

However, John Foyle, acting chief executive of Liffe, said that the new system, Liffe Connect, would include features not available on the DTB's system. These would enable traders to simulate some of the sophisticated trading strategies available to floor traders that guarantee a liquid market.

"Liffe Connect will be the latest and the best model available so we cannot afford to cut any corners, but we are responding to the overwhelming market desire to bring forward its introduction," said Mr Foyle.

Mr Williamson, Liffe's first full-time paid chairman, is expected to reveal other measures next month. These are likely to include radical ways of tapping into the over-the-counter (unlisted) market in derivatives, which has grown five-fold in the past six years.

Mr Williamson has set up an eight-member "fast progress" group comprising four Liffe insiders and four outsiders, including Sir Brian Pitman, chairman of Lloyds TSB, and David Hardy, chief executive of the London Clearing House.

Liffe and the LCH are rumoured to be in merger talks, but officials at Liffe deny this is imminent. The LCH also hopes to get involved in the OTC market and has submitted a proposal to be the first clearing house to offer clearing facilities for OTC swaps.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 23	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.3869	4.85	-0.04	-0.01	-0.47	+0.35
	08/08	8.750	126.7934	5.24	-0.07	-0.04	-0.32	-0.61
Austria	07/00	5.875	103.6900	3.71	-0.02	+0.03	-0.08	-0.80
	01/08	5.000	105.5500	4.28	+0.03	-0.03	-0.27	-1.33
Belgium	01/00	4.000	100.4400	3.64	-	+0.06	-	-0.47
	03/08	5.750	111.2200	4.28	+0.03	-0.03	-0.27	-1.35
Canada	03/00	5.000	99.8300	5.12	-0.08	-0.13	-0.19	+1.07
	06/08	6.000	106.7800	5.10	-0.02	-0.17	-0.46	-0.66
Denmark	11/00	8.000	108.4200	4.73	-0.02	+0.29	+0.63	+0.08
	11/07	7.000	112.6000	4.81	-0.04	+0.14	+0.09	-1.29
Finland	01/99	11.000	102.2047	3.13	-0.01	+0.09	+0.18	-1.03
	04/08	6.000	112.3370	4.38	+0.02	-0.03	-0.13	-1.36
France	01/00	4.000	100.5200	3.57	-0.01	+0.03	-0.08	-0.65
	04/05	7.500	120.8800	3.84	+0.03	-0.02	-0.29	-1.28
	04/08	5.250	108.7100	4.13	+0.05	-0.06	-0.28	-1.35
	04/29	5.500	109.0300	4.92	+0.08	-0.03	-0.17	-1.21
Germany	03/00	4.000	100.7400	3.46	-0.01	-0.08	-0.16	-0.51
	10/05	6.500	115.2800	3.87	+0.02	-0.02	-0.24	-1.50
	01/08	5.250	109.2000	4.02	+0.05	-0.03	-0.28	-1.53
	01/28	5.625	111.3000	4.89	+0.10	-0.03	-0.18	-1.30
Ireland	10/01	6.500	107.3000	3.83	+0.01	+0.02	-0.32	-1.80
	08/08	6.000	112.9800	4.36	+0.03	-0.02	-0.30	-1.86
Italy	04/01	4.500	101.4200	3.89	-	-0.01	-0.22	-1.42
	06/03	4.750	102.8600	4.06	+0.01	-0.01	-0.22	-1.80
	06/08	5.000	104.5800	4.39	+0.04	-0.06	-0.27	-1.70
	11/27	6.500	118.8000	5.23	+0.03	-0.04	-0.08	-1.44
Japan	03/00	6.400	108.9900	0.28	-0.07	+0.05	-0.14	-0.18
	06/03	4.500	117.8600	0.66	-	+0.06	-0.24	-0.79
	09/05	3.000	114.8800	0.80	-	-0.01	-0.38	-1.19
	03/18	2.700	119.9800	1.51	-	-0.03	-0.52	-1.31
Netherlands	05/00	3.000	108.4000	3.58	-	-0.08	-0.12	-0.88
	07/08	5.250	108.8700	4.13	+0.03	-0.06	-0.32	-1.38
New Zealand	02/01	8.000	104.1516	6.08	+0.09	+0.12	-0.17	-0.64
	11/06	8.000	112.7874	5.99	+0.05	-0.04	-0.06	-0.56
Norway	01/99	9.000	100.2400	7.80	-0.01	-0.03	+0.43	+3.40
	01/07	6.750	107.8500	5.54	-	+0.09	-0.13	-0.29
Portugal	03/00	5.375	102.5500	3.58	-0.02	-0.04	-0.35	-1.43
	06/08	5.375	107.5700	4.40	-0.04	-0.02	-0.28	-1.59
Spain	04/00	6.750	104.4000	3.74	+0.08	+0.01	-0.12	-1.03
	01/08	6.000	111.8700	4.42	+0.05	-0.01	-0.27	-1.50
Sweden	05/00	10.250	108.8380	4.27	+0.02	+0.13	+0.05	-0.42
	05/08	6.500	112.3140	4.86	+0.03	+0.12	+0.15	-1.40
Switzerland	03/00	5.000	104.7800	1.62	+0.08	+0.01	-0.32	-0.13
	06/07	4.500	113.0500	2.79	+0.07	+0.05	+0.09	-0.73
UK	11/01	7.000	103.8125	5.65	+0.02	-0.09	-0.58	-1.22
	12/03	6.500	105.5781	5.26	+0.02	-0.07	-0.50	-1.44
	12/07	7.250	118.3438	5.01	+0.05	-0.07	-0.48	-1.64
	12/28	6.000	120.3125	4.72	+0.03	-0.11	-0.50	-1.84
US	05/00	5.500	101.1690	4.76	-0.01	-0.05	-0.47	-1.07
	05/03	5.500	103.4249	4.66	-0.01	-0.10	-0.58	-1.41
	05/08	5.625	106.8560	4.73	+0.01	-0.13	-0.57	-1.36
	11/27	6.125	112.1660	5.30	+0.03	-	-0.25	-1.08
ECU	07/00	4.000	100.4800	3.71	-0.02	+0.01	-0.13	-0.81
	04/08	5.250	108.2600	4.18	+0.05	-0.05	-0.28	-1.54

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Sep 23	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.23	+1.29	+0.50
Austria	4.25	+0.31	-0.48
Belgium	4.31	+0.37	-0.42
Canada	5.10	+1.16	+0.37
Denmark	4.78	+0.84	+0.05
Finland	4.40	+0.46	-0.33
France	4.14	+0.20	-0.59
Germany	3.94	-	-0.79
Ireland	4.36	+0.42	-0.37
Italy	4.45	+0.51	-0.28
Japan	0.95	-2.99	-3.78
Netherlands	4.14	+0.20	-0.59
New Zealand	5.99	+2.05	+1.26
Norway	5.52	+1.58	+0.79
Portugal	4.40	+0.46	-0.33
Spain	4.50	+0.56	-0.23
Sweden	4.88	+0.94	+0.15
Switzerland	3.00	-0.94	-1.73
UK	4.92	+0.98	+0.19
US	4.73	+0.79	-
ECU	4.21	+0.27	-0.52

Source: Interactive Data/FT Information. London closing, * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Sep 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	90.3961	10.41	-0.45	+1.56	+5.83
Poland	07/04	7.125	BBB-	101.6992	6.76	+0.04	-0.07	+2.16
Russia	06/07	10.000	CCC-	23.6250	46.13	-2.38	+10.11	+41.44
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	82.7500	11.88	-0.34	-1.74	+6.72
Brazil	05/27	10.125	BB-	63.0000	16.17	-0.46	-0.13	+11.01
Mexico	05/26	11.500	BB	100.0000	11.50	-0.30	-1.46	+6.37
■ ASIA								
China	07/06	7.750	BBB+	94.5530	8.73	+0.05	-0.07	+4.07
Philippines	10/16	8.750	BB+	73.5000	12.48	-0.55	+1.10	+7.57
Thailand	04/07	7.750	BBB-	73.6797	12.92	-0.89	+1.41	+8.23
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	103.8435	6.80	-0.45	-1.91	+2.15
South Africa	10/06	8.375	BB+	86.4124	11.00	+0.09	+1.04	+6.34
Turkey	09/07	10.000	B	83.0000	13.36	-0.46	+1.39	+8.67
■ BRADY BONDS								
Argentina	03/23	5.750	BB	68.8750	9.21	-0.41	-0.93	+4.14
Brazil	04/14	5.000	BB-	63.2500	13.00	-0.20	-1.82	+8.14
Mexico	12/19	6.250	BB	75.3750	8.84	-0.31	-0.41	+3.86
Venezuela	03/20	6.750	B+	66.0000	10.87	-0.21	-0.96	+5.87

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110.21	109.85	-0.44	110.33	109.84	108,604	108,550

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
103	6.85	6.85	6.86	-	-	-
104	5.85	5.85	5.86	-	-	0.01
105	4.85	4.86	4.85	-	-	0.03
106	3.85	3.86	3.91	-	0.02	0.08

Est. vol. total, Calls 5,042 Puts 7,002. Previous day's open int., Calls 43,763 Puts 64,681.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	113.68	113.64	-0.51	113.68	113.68	7	4969
Mar	-	112.29	-0.51	-	-	0	0

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	114.05	113.71	-0.41	114.15	113.62	534,885	563,068
Mar	114.30	114.09	-0.42	114.30	113.95	723	11,535

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11350	0.14	0.90	1.15	0	0.76	1.01
11400	0	0.66	0.91	0.36	1.02	1.27
11450	0	0.47	0.71	0.86	1.33	1.57

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 6995 Puts 8490

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	107.95	107.97	-0.03	108.05	107.88	137,015	248,304
Mar	-	107.63	-0.04	-	-	5	2,672

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.43	111.07	-0.36	111.43	110.98	24931	87211
Mar	-	111.19	-0.36	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Nov	Calls Dec	Puts Nov	Puts Dec
11100	0.53	0.99	0.46	0.92
11150	0.31	0.75	0.74	1.19
11200	0.16	0.57	1.09	1.50

Est. vol. total, Calls 50 Puts 20. Previous day's open int., Calls 100 Puts 2275

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.11	114.78	-0.41	115.18	114.65	75,941	101,610
Mar	-	114.23	-0.37	-	-	-	-

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	108.86	-0.22	-	-	0	561
Dec	-	108.83	-0.22	-	-	0	1694

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114.50	114.41	-0.56	114.50	114.43	79	4624
Dec	115.15	114.66	-0.54	115.28	114.60	49807	149566

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11450	0.16	1.08	1.47	0	0.92	1.31
11500	0	0.83	1.24	0.34	1.17	1.58
11550	0	0.65	1.03	0.84	1.49	1.87

Est. vol. total, Calls 3253 Puts 1958. Previous day's open int., Calls 71165 Puts 38725

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	129-04	128-22	-0-17	129-13	128-21	374,767	609,888
Mar	129-04	128-13	-0-14	129-04	128-11	5,036	-
Jun	128-04	-	-	-	-	2	-

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	137.94	137.90	-	137.95	137.88	131	n/a
Mar	-	137.08	-	-	-	0	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	-	107.96	-0.34	-	-	0	0

US CORPORATE BONDS

Sep 23	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	105.9020	5.49	+0.08	-0.46	+0.93
NY Tel	06/05	7.00	A+	102.7833	6.73	+0.04	-0.22	+2.17
CWE	05/08	8.00	BBB	114.5611	5.98	+0.04	-0.34	+1.25
■ FINANCIALS								
GECC	05/07	8.75	AAA	122.0891	5.50	+0.04	-0.53	+0.78
Banc One	08/02	7.25	A+	105.8904	5.62	+0.06	-0.42	+0.96
Media One	01/07	7.30	BBB	107.4350	6.14	+0.05	-0.27	+1.42
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1768	5.89	+0.02	-0.17	+1.38
Wal Mart	05/02	6.75	AA	105.3787	5.10	+0.06	-0.54	+0.54
Dayton Hud	08/21	9.70	BBB+	135.6023	6.63	-	-0.03	+1.48
■ AGENCIES								
FHLMC	04/07	7.14	N/A	112.7884	5.26	+0.04	-0.42	+0.54
SLMA	03/00	7.50	N/A	103.2690	5.14	-	-0.37	+0.48
FNMA	02/18	8.95	N/A	136.7463	5.77	-	-0.11	+0.62
FFCB	08/06	8.95	N/A	123.2207	5.23	+0.04	-0.42	+0.51
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	94.5000	0.00	-	-	-
AK Stl	12/01	9.13	BB-	99.5000	0.00	-	-	-
Pacalta	06/04	10.75	B-	91.0000	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	4.65
Broker loan rate	7¾	Two month	-	Three year	4.61
Fed.funds	5⅝	Three month	4.77	Five year	4.58
Fed.funds at intervention	-	Six month	4.78	10-year	4.73
		One year	4.66	30-year	5.18

INTERNATIONAL BONDS

Sep 23	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	6.750	AAA	110.4200	4.24	-0.03	-0.22	+0.19
Spain	01/07	5.750	AA	109.9700	4.29	-	-0.17	+0.24
Philip Morris	03/04	8.375	A	102.9800	4.74	+0.13	+0.01	+0.88
Finland FRN	09/02	3.531	AA	100.6654	3.18	-0.02	-0.16	-0.50
■ EURO FFR								
Austria	01/04	5.500	AAA	107.4100	3.92	-0.04	-0.17	+0.12
Abbey Nat	02/04	6.000	AA	109.1700	4.08	-0.08	-0.15	+0.26
Cred Foncier	02/04	8.125	A	122.5900	4.33	-0.01	-0.23	+0.53
3CIF FRN	12/01	3.617	AA-	99.9481	3.59	+0.02	-0.10	-0.12
■ EURO LIRA								
EIB	02/07	7.000	AAA	118.1500	4.36	-	-0.28	-0.03
Abbey Nat	02/02	6.800	AA	108.2300	4.14	-	-0.16	+0.11
Walt Disney	06/00	8.825	A	107.0200	4.27	+0.09	-0.07	+0.27
EIB FRN	10/01	4.743	AAA	100.0970	3.74	+0.02	-0.21	-0.18
■ EURO £								
EIB	12/07	7.625	AAA	113.5250	5.69	+0.09	-0.26	+0.66
Dresdner Bk	12/07	7.750	AA-	108.8423	6.44	+0.08	-	+1.40
British Gas	03/00	7.625	A+	101.1095	6.76	+0.04	-0.51	+0.87
Abbey Nat FRN	02/02	7.900	AA	100.1280	5.43	+0.04	-0.60	+0.01
■ EURO $								
EIB	04/07	7.250	AAA	112.7400	5.35	-0.03	-0.55	+0.66
ABN Amro	06/07	7.125	n/a	107.0931	5.95	+0.03	-0.21	+1.26
Quebec	01/07	7.000	A+	107.9721	5.76	+0.03	-0.17	+1.09
Citicorp FRN	02/04	5.750	A+	100.5141	5.52	+0.03	+0.18	+0.93
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.8222	5.64	-0.04	-0.41	+0.17
Toronto	05/04	8.500	AA+	113.7452	5.59	-0.04	-0.38	+0.12
Bell Canada	07/99	10.825	A+	103.7870	6.37	-0.08	-0.28	+0.86
Deutsche B FRN	08/02	5.875	AA+	100.3983	5.78	-	-0.13	+0.34
■ EURO YEN								
World Bank	03/02	5.250	AAA	118.1310	0.50	-	-0.20	-0.02
Spain	06/02	5.750	AA	117.9024	0.55	-	-0.18	-0.04
Cred Foncier	08/02	4.750	A	114.0590	1.02	-	-0.20	+0.43
Italy FRN	07/99	0.727	AA	100.2222	0.00	-0.05	-0.12	-0.26

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Sep 23	Day's change %	Tue Sep 22	Accrued interest	xd adj. ytd
1 Up to 5 years (18)	120.62	-0.06	120.69	2.09	7.55
2 5-15 years (19)	170.97	-0.41	171.67	3.07	7.34
3 Over 15 years (5)	222.88	-0.65	224.34	2.04	8.20
4 Irredeemables (4)	299.55	-1.22	303.24	3.85	9.41
5 All stocks (46)	162.58	-0.36	163.08	2.67	7.81
Index-linked					
6 Up to 5 years (2)	220.48	-0.13	220.77	1.08	4.36
7 Over 5 years (9)	239.15	-0.53	240.43	1.37	5.08
8 All stocks (11)	235.52	-0.47	236.62	1.32	4.91

UK Indices

	Low coupon yield Sep 23	Sep 22	Yr. ago	Medium coupon yield Sep 23	Sep 22	Yr. ago	High coupon yield Sep 23	Sep 22	Yr. ago
5 yrs	5.34	5.28	6.68	5.39	5.33	6.78	5.35	5.31	6.82
15 yrs	4.83	4.77	6.63	4.99	4.93	6.64	5.05	4.99	6.72
20 yrs	4.78	4.72	6.63	4.97	4.91	6.61	5.04	4.98	6.72
Irred.†	5.04	4.98	6.72						

	Inflation 5% Sep 23	Sep 22	Yr. ago	Inflation 10% Sep 23	Sep 22	Yr. ago
Up to 5 yrs	2.77	2.73	3.45	2.05	2.01	2.72
Over 5 yrs	2.47	2.43	3.38	2.27	2.23	3.28

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Sep 23	Sep 22	Sep 21	Sep 18	Sep 17	Yr ago	High*	Low*
Govt. Secs. (UK)	111.01	111.56	111.67	111.09	111.06	99.64	111.67	93.31
Fixed Interest	151.24	151.31	151.51	151.02	150.49	130.26	151.51	115.32

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UK GILTS PRICES

Shorts* (Lives up to Five Years)	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Treas 15½pc '98		15.50	-	100xd	-	103⅛	100
Exch 12pc 1998		11.92	6.99	100⅝	-	105⅛	100⅝
Treas 9½pc 1999		9.44	6.94	100⅝	-	103⅛	100⅛
Treas Flg Rate 1999		-	-	100⅛	-	100⅛	100⅛
Exch 12¼pc 1999		11.53	6.87	102⅜xd	-⅛	107⅝	102⅜
Treas 10½pc 1999		10.25	6.72	102⅜	-	[illegible]	102¼
Treas 6pc 1999		6.02	6.47	99⅝	-	99⅝	98¼
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Treas 8½pc 2004		6.24	5.18	120¾	-⅛	120⅞	99⅞
Conv 9½pc 2005		7.72	5.30	123⅞	-⅛	123⅞	114⅛
Exch 10½pc 2005		8.09	5.31	129⅞	-⅛	130⅜	121½
Treas 12½pc 2003-5		9.48	5.32	131⅞	-⅛	132½	128⅞
Treas 8½pc 2005		7.11	5.21	119½	-⅛	120⅛	109⅞
Conv 9¾pc 2006		7.46	5.12	130⅞	-⅛	131⅞	119⅛
Treas 7½pc 2006		6.49	5.16	115½	-½	116⅞	104⅞
Treas 7¾pc 2006		6.65	5.19	116⅛	-⅛	117⅛	105⅞
[illegible]							

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
2½pc '99	(81.6)	1.84	2.81	194⅞	-⅛	195⅛	185⅞
2½pc '01	(78.3)	2.89	3.23	200⅛xd	-⅛	201⅛	191⅛
2½pc '03	(78.8)	2.71	2.96	200⅛	-⅛	200⅛	188⅛
4⅝pc '04	(135.6)	2.55	2.76	139⅛	-⅛	139⅞	121⅞
2pc '06	(69.5)	[illegible]	2.89	220⅞	-⅛	221⅞	199⅞
2½pc '09	(78.8)	2.50	2.62	201⅞	-⅛	203⅞	180⅛
[illegible]							

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Dollar sinks on Greenspan testimony

MARKETS REPORT

By Christopher Adams

The dollar sank sharply late yesterday after Alan Greenspan, chairman of the US Federal Reserve, said the risk of an economic slowdown in the US had increased.

Expectations that the US may cut interest rates intensified. "Deteriorating foreign economies and their spillover to domestic markets have increased the possibility that the slowdown in the growth of the American economy will be more than sufficient to hold inflation in check," Mr Greenspan told a Senate committee.

The dollar shed half a pfennig against the D-Mark on the news, losing earlier gains to trade at DM1.680, from DM1.685 on Tuesday.

"The way the market is interpreting it is that a cut is more likely," said Marc Chandler, senior currency strategist at Deutsche Bank Securities in New York. "The Fed has pressures and Greenspan is trying to look ahead. He is signalling a change in policy and the real question is timing. If the Fed doesn't cut next week, the market will expect an even bigger cut later."

A spate of comments recently by Fed officials, appearing to rule out a co-ordinated easing in monetary policy worldwide to help stimulate the global economy but leaving open the possibility of a reduction in US interest rates, has fuelled speculation the Fed may act. "People are realising that the Fed is very sensitive to the international crisis. A weakening of interest rates in the US looks more likely than in Germany," said Julian Callow, European economist at Dresdner Kleinwort Benson.

With Japanese markets shut because of a holiday, it was left to London to set the early tone. Renewed pessimism over the chances for effective banking reforms in Japan, considered essential if the country is to drag itself out of recession, helped support the dollar.

"The dollar is still looking fairly well underpinned against the yen," said Jeremy Hawkins, chief economist at Bank of America in London. "People are becoming increasingly unenamoured with the way financial reform is going through in Japan. Even if they agree something, whatever they do may not have the financial impact needed to address the situation."

Expectations that temporary capital flows into Japan would shortly cease put additional pressure on the yen, which fell from Y135.3 to Y136.2 against the dollar. Japanese companies have been repatriating overseas assets to bolster balance sheets before the end of the fiscal half-year

■ True, a cut in US rates would have long term benefits for Brazil and other troubled Latin American countries. But, with US still experiencing relatively demand strong, there are few domestic drivers compelling the Fed to make such a move. Michael Scarlatos, currency strategist at Bankers Trust in New York, said the US could instead use its fiscal surplus – expected to be some $60bn this year – to cut taxes and boost spending, measures that would be just as effective as a reduction in interest rates. Because of its status as the world's biggest consumer, both moves would suck in bigger import volumes, spurring growth and aiding Brazil in its struggle to avoid devaluation.

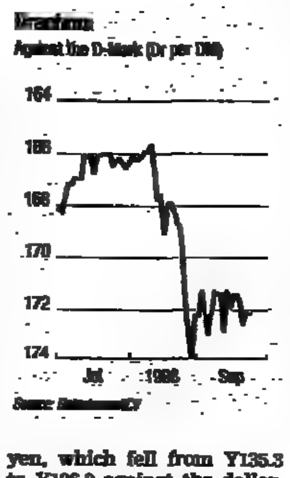
■ Greece signalled yesterday that it would prefer to maintain the drachma's 15 per cent fluctuation band against currencies participating in European monetary union. The drachma and the Danish krone, although within the exchange rate mechanism (ERM), will not join the single currency when it is introduced on January 1.

Speculation about the drachma's trading range in the post-EMU landscape has caused the currency to fluctuate ahead of a meeting of EU finance ministers this weekend, when the level is likely to be decided. Too tight a range and Greece would be forced to cut interest rates dramatically to bring the drachma down.

Sharp gains in the Danish krone, following a one percentage point increase in interest rates last Friday, forced Denmark's central bank to intervene for the second day in a row.

Drachma

Against the D-Mark (Dr per DM)



Source:

■ POUND IN NEW YORK

Sep 23	—Latest—	— Prev. close —
£ spot	1.6795	1.6840
1 mth	1.6770	1.6814
3 mth	1.6648	1.6763
1 yr	1.6521	1.6578

■ OTHER CURRENCIES

Sep 23	£	$
Czech Rp	51.3490 - 51.4393	30.5850 - 30.5858
Hungary	361.262 - 362.080	215.400 - 215.520
Iran	5059.51 - 5047.50	3000.00 - 3000.00
Kuwait	0.5116 - 0.5125	0.3041 - 0.3044
Peru	5.0800 - 5.0893	3.0250 - 3.0280
Poland	6.0287 - 6.0837	3.5820 - 3.5848
Russia	[illegible]	15.0000 - 16.0000
UAE	6.1795 - 6.1835	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

COMMODITIES & AGRICULTURE

Rise in oil could mark change in fundamentals

MARKETS REPORT

By Paul Solman

World oil prices rose again yesterday, continuing a trend that has seen the flagging prices jump more than $1 in the past week.

In late trading on London's International Petroleum Exchange, the November contract for Brent blend was $14.70 a barrel, up 21 cents from Tuesday's close.

"We have seen some short-covering by funds and some more long positions being taken," Leslie Nicholas, at GNI, said yesterday. "The hurricanes are also affecting US weekly statistics and are likely to continue to do so for several weeks."

Mr Nicholas believes the gains of the past few days could mark a change in fundamentals in the oil market.

"We have seen more oil in transit in the past few weeks, and there are constructive prospects for an increase in demand in the winter. The price is on an uptrend and there's a good chance of it testing higher."

Also yesterday, a meeting of oil ministers from Iran, Algeria, Oman, Kuwait and the United Arab Emirates suggested keeping open the possibility of further cuts in production.

Kuwait, which hosted the meeting, hinted that cuts were possible before a meeting of the Organisation of Petroleum Producing Countries in November.

The International Energy Agency reported that 9.3m barrels had been drawn from US crude stocks last week.

Meanwhile, Rio Tinto said it had closed its Huelva copper mine in southern Spain because of the depressed global copper prices. The mine, which produces 50,000 tonnes a year, will be out of action for three to six months. The company said its production costs were $1,800 a tonne – significantly higher than the current price of copper.

Three-month copper closed yesterday at $1,647 a tonne on the London Metal Exchange compared with Tuesday's $1,635.

Three-month nickel was $4,155 a tonne against the Tuesday close of $4,110. Nickel production in Cuba could be interrupted as Hurricane Georges moves into the eastern province of Holguin. The hurricane may also cause additional problems for the country's sugar cane crop, which has already been damaged by drought.

Gold was "fixed" in London yesterday afternoon at $288.90 an ounce, the same as Tuesday afternoon's fix but higher than the morning fix of $288. Later in Europe, bullion closed at $289.30.

Palladium also rose in Europe after Tuesday's fall. At the close, it was $3 higher at $284 a tonne.

Talks between coffee producers and consumers on the future of the international coffee agreement will continue today at the International Coffee Association in London. On the London International Financial Futures and Options Exchange, coffee closed $14 lower at a $1,591 tonne.

Continued fall seen in price of coal

By Paul Solman

International coal prices are continuing to fall in the face of weak demand from Asia, rising production and higher stocks, according to the World Bank.

In its latest quarterly report, Commodity Markets and the Developing Countries, the bank says buyers are increasing the amount of coal they buy from the spot market because of low spot prices.

"Spot sales have been completed at as much as $10 a tonne below the Japanese Chubu benchmark price of $34.50 a tonne," the bank said. "Current spot prices will undoubtedly affect contract negotiations for next year."

Prices in the US are also weak and hot weather in parts of the country has kept demand for coal subdued. In addition, some US utilities have taken advantage of low prices in the jet fuel, heating oil and heavy fuel oil markets by using these fuels to operate their generators.

Falling exchange rates in Australia, Indonesia and South Africa have also made coal from these countries more competitive, and their exports are increasing.

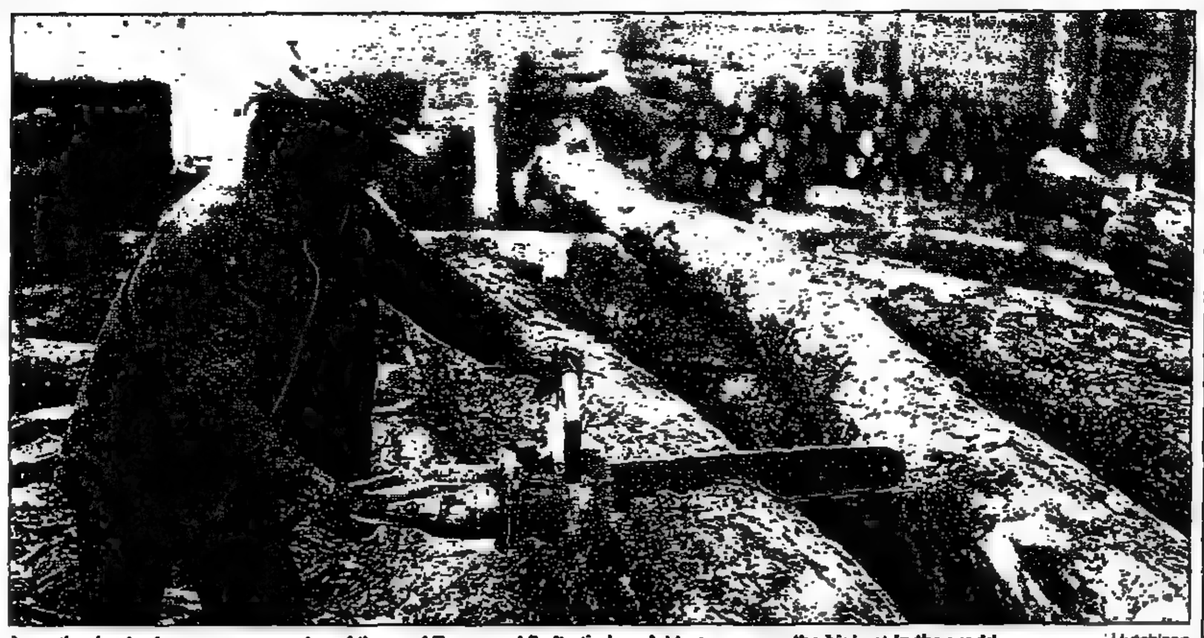
The World Bank expects demand for coal to pick up next year, and forecasts production to rise by 3 per cent but says the global exportable surplus is expected to continue into 1999, keeping a lid on prices.

The bank forecasts prices to hold at this year's level of $35 a tonne during next year and in 2000. That compares with $36.40 in 1997, $37.20 in 1996 and $39.20 in 1995.

● India produced 22m tonnes of coal in August compared with 20m in the same month in 1997, Reuters reports from New Delhi. Stocks were 24m tonnes compared with 17m tonnes a year earlier.

Argentina takes a serious look at forestry sector

A new law allows tax breaks for investors and it is hoped that 200,000 hectares a year will be planted, writes **Andrea Campbell**



Argentine land prices are one-quarter of those of Europe, while its timber yields are among the highest in the world Hutchison

Argentina is renowned for its sprawling pampas grasslands, but it could soon become known for vast forests of pine and eucalyptus trees. The idea was launched this month when Argentina's Lower House passed a forestry promotion bill that is expected to receive Senate approval before the end of the year.

The proposed law offers tax breaks for potential investors – from fiscal stability for the life of the project to a refund on the country's 21 per cent value-added tax within a year of investment. A 10-year subsidy programme is also included, financing up to 80 per cent of land costs.

The legislation is modelled on Argentina's successful 1993 mining law and government officials are hoping the forestry sector will take off in much the same way – in the past five years some 80 mining companies have invested an estimated $4bn in Argentina.

While it is not the best time for the forestry industry, given the worldwide slump in commodity prices and a drop in Asian demand, the government hopes companies will plant an average of 200,000 hectares of trees a year between 2000 and 2009.

"Argentina has a lot of lost time to make up for," says Esteban Takacs, director of several new forestry-related projects and former head of the national forestry service. "Livestock and agriculture have been everything in Argentina and forestry is only now being taken seriously."

To date, the government has received requests to plant 120,000 ha in 1999, up from 20,000 ha in 1992, when the first incentive programmes were launched, says Daniel Maradei, adviser to the secretary of agriculture, livestock, fish and food.

"We are expecting a large influx of investment as a result of this law," says Mr Maradei. "For countries like ours, to have guarantees that the rules of the game will be maintained for 50 years is something tremendously important, and I think for all of Latin America it's something very new."

Unlike neighbouring Brazil and Chile, both big forestry producers, Argentina's timber resources have been largely limited to small-scale, highly protected manufacturers supplying the domestic market. But after years of a closed economy and hyper-inflation, Argentina still possesses large tracts of land outside the main agricultural areas.

Land prices are one-quarter those of Europe and even cheaper than in Brazil, while timber yields are among the highest in the world. Genetically engineered southern yellow pines grow at a record 35 cubic metres per hectare a year and are ready to be clear-cut in 16 years, against 45 years in the US.

Government officials began actively promoting the sector's advantages outside Argentina with road-shows to the US, Canada and Japan this year. But many foreign investors have already shown interest in the country's forestry potential, particularly the Chileans, who are responsible for more than half the $1.5bn invested since 1995.

Faced with the scarcity of land at home, Chile's Arauco and Compañia Manufacturera de Papeles y Cartones (CMPC) have crossed the border to occupy some of the 20m ha of savannah Argentina says are available for forest plantation. Arauco, owned by the Angellini family, claims the second largest plantation forest in the country and has invested $130m in new technology.

The Matte group's CMPC acquired Protisa, the tissue paper company, and is planting 6,000 ha a year in preparation for what would be Argentina's first world class pulp mill complex, estimated to cost $700m.

Other newcomers include New Zealand's Fletcher Challenge, Inland Container of the US and Germany's Danzer. Several oil companies have also taken an interest, including Argentina's Perez Companc and Yacimientos Petroliferos Fiscales. The Anglo-Dutch firm, Shell, paid $21m this month for 9,200 ha in the province of Buenos Aires, adding to 15,000 ha acquired last year in what some see as a bid to collect environmental credits on greenhouse gas emissions.

"There are companies subsidising plantations to obtain carbon emissions credits. It's not a declared intention but it's an additional advantage these companies could have," says Mr Maradei. The move also helps Argentina's own environmental problems. Since the turn of the century, it has lost two-thirds of its forests to agriculture and indiscriminate cutting. Of the 35m ha of remaining native forests, 15m ha are considered degraded and the rest could disappear by 2036.

In a controversial proposal, Savia Inc, the US-based logger, is looking to turn 400,000 ha of beech forests spanning Argentine and Chilean territory into the largest tract of green certified temperate rainforest in the world.

In spite of Savia providing an environmental impact assessment, the project has been opposed by environmental groups.

"It's important as a leading case of how well-managed forestry could be installed in Argentina," says Mr Takacs, director of Lenga Patagonia, Savia's Argentine subsidiary. But while native forests represent 30 per cent of the country's annual timber production, Argentina's main potential is in plantation forests.

As forested land becomes more scarce and demand rises, Argentina will be one of the few countries able to increase production. Exports have risen by 30 per cent a year since 1991 and in certain sectors, such as round logs and pulp, have far outstripped world growth rates.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1294.5-95.5	1326.5-27
Previous	1299-300	1331-2
High/low		1334/1326
AM Official	1299-9.5	1312-2.5
Kerb close		1330-30.5
Open int.	285,197	
Total daily turnover	113,081	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1122-27	1156-57
Previous	1128-33	1160-1
High/low		1162/1150
AM Official	1125-30	1158-60
Kerb close		1162-65
Open int.	8,223	
Total daily turnover	2,418	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	514-5	528.5-9
Previous	510-11	525-6
High/low		530/527
AM Official	513-4	528-9
Kerb close		528-9
Open int.	38,891	
Total daily turnover	6,450	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4075-85	4150-55
Previous	4030-40	4105-10
High/low		4175/4110
AM Official	4075-80	4145-50
Kerb close		4170-90
Open int.	60,939	
Total daily turnover	15,188	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5465-75	5395-400
Previous	5480-90	5400-10
High/low		5410/5390
AM Official	5470-75	5395-405
Kerb close		5390-95
Open int.	12,684	
Total daily turnover	[illegible]	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	979.5-80.5	1004-05
Previous	985-6	990-1
High/low		1009/993
AM Official	977.5-8.0	1002.5-3.0
Kerb close		1009-10
Open int.	89,748	
Total daily turnover	20,594	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1624.5-25.5	1646-47
Previous	1612-3	1635-6
High/low		1654/1632
AM Official	1620-21	1642-3
Kerb close		1646-47
Open int.	165,878	
Total daily turnover	47,764	

■ LME AM Official £/$ rate: 1.6782
LME Closing £/$ rate: 1.6805

Spot: 1.6797 3 mths: 1.6723 6 mths: 1.6657 9 mths: 1.6590

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	75.50	+1.55	75.60	74.20	683	2,164
Oct	74.90	+1.35	75.00	73.90	379	3,493
Nov	75.00	+1.50	75.10	73.90	252	2,104
Dec	75.05	+1.40	75.10	73.50	9,474	30,204
Jan	75.20	+1.30	–	–	11	2,095
Feb	75.35	+1.30	–	–	4	1,213
Total					11,215	60,485

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	289.20-289.70		
Opening	287.60-288.00		
Morning fix	288.00	171.43	402.91
Afternoon fix	288.90	171.78	403.45
Day's High	289.20-289.60		
Day's Low	287.60-288.00		
Previous close	289.20-289.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.88	6 months	3.98
2 months	4.74	12 months	3.61
3 months	4.58		

Silver Fix	p/troy oz.	US cts equiv.
Spot	290.30	488.00

Silver Lending Rates

1 month	3.75	6 months	2.05
2 months	3.00	12 months	1.95
3 months	2.85		

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	172-175
New Sovereign	67-71	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	289.5	+2.1	287.7	287.7	1	1
Oct	[illegible]	+2.0	289.6	288.3	1,428	8,994
Dec	292.5	+2.0	292.7	290.0	19,482	79,612
Feb	294.3	+2.0	294.5	292.0	1	17,070
Apr	296.1	+2.0	296.9	295.3	348	11,502
Jun	297.8	+2.0	–	–	87	15,007
Total					21,887	174,700

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	355.5	+2.2	356.0	[illegible]	2,065	8,649
Jan	355.7	+2.0	[illegible]	352.5	1,229	3,070
Apr	358.7	+2.0	–	–	100	150
Jul	367.7	+2.0	–	–	8	31
Total					3,417	12,300

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	280.00	+2.25	–	–	5	10
Dec	281.00	+2.25	282.00	277.00	225	2,703
Mar	278.90	+2.25	–	–	–	326
Total					228	3,039

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	500.2	+15.6	489.5	489.5	134	145
Dec	504.3	+15.3	507.0	488.0	6,461	53,732
Jan	506.5	+15.3	500.5	500.5	–	49
Mar	508.2	+15.2	512.0	492.0	136	10,080
May	510.8	+15.2	–	–	1	1,730
Jul	513.2	+15.2	500.0	498.0	1	2,794
Total					7,248	74,094

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	15.79	–0.05	16.10	15.70	62,725	127,8[illegible]
Dec	15.90	–0.04	16.18	15.81	20,436	80,438
Jan	15.99	–0.06	16.25	15.92	3,394	43,491
Feb	16.10	–0.07	16.27	16.08	786	20,338
Mar	16.20	–0.07	16.40	16.20	1,709	18,319
Apr	16.43	+0.08	16.49	16.43	3,121	11,802
Total					124,902	468,733

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	14.50	+0.01	14.73	14.43	23,246	78,557
Dec	14.66	–0.02	14.89	14.59	9,483	53,470
Jan	14.71	–0.03	14.95	14.67	1,423	37,580
Feb	14.83	–0.02	15.00	14.78	1,208	17,994
Mar	15.06	+0.12	15.10	15.08	149	13,342
Apr	15.06	–0.01	15.08	15.06	25	8,343
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	41.85	–0.31	42.60	41.60	11,339	28,085
Nov	43.05	–0.16	43.80	42.80	7,549	38,494
Dec	44.05	–0.21	44.80	43.95	2,111	26,017
Jan	44.95	–0.16	45.70	44.90	744	24,531
Feb	45.70	–0.06	46.20	45.65	258	19,021
Mar	45.85	–0.06	46.30	45.85	487	16,507
Total					23,778	190,803

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	128.00	+1.00	130.25	127.50	8,167	31,694
Nov	131.00	+1.00	133.00	30.75	4,196	22,354
Dec	133.00	+0.50	135.50	133.00	4,067	38,773
Jan	135.50	+0.50	137.75	135.50	2,256	16,814
Feb	137.75	+1.00	138.75	137.75	486	13,531
Mar	139.00	+1.00	140.00	139.25	505	8,113
Total					[illegible]	[illegible]

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Oct	12.390	+0.180	12.450	12.250	1,025	3,870
Nov	13.980	+0.130	14.020	13.800	425	2,835
Total					1,815	28,205

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	2.150	–0.036	2.250	2.110	43,870	41,971
Nov	2.390	–0.027	2.470	2.350	14,982	38,175
Dec	2.585	–0.007	2.640	2.545	7,103	32,835
Jan	2.635	–0.002	2.675	2.600	4,834	30,410
Feb	2.515	+0.003	2.549	2.485	2,131	20,979
Mar	2.345	–0.012	2.370	2.335	1,999	18,836
Total					78,444	280,570

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	45.65	–0.57	46.50	45.40	14,189	20,875
Nov	45.65	–0.42	46.35	45.35	10,370	30,200
Dec	46.05	–0.36	46.55	45.85	3,476	8,839
Jan	46.60	–0.40	47.00	46.50	1,123	4,773
Feb	47.55	–0.15	47.75	47.55	412	3,398
Mar	48.30	–0.20	48.40	48.40	240	2,333
Total					30,603	85,352

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.85	+1.60	–	–	–	51
Nov	72.85	+0.90	73.00	72.85	135	2,520
Jan	74.75	+0.55	74.75	74.45	60	2,298
Mar	76.75	+0.75	76.45	76.40	20	1,644
May	78.75	+0.75	78.75	78.50	15	1,389
Total					250	7,862

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	274.25	–	277.00	271.50	21,546	84,580
Mar	289.25	–	292.00	287.00	4,427	28,110
May	299.50	+0.50	301.00	297.00	326	5,173
Jul	309.25	+0.25	311.00	307.00	1,832	11,588
Sep	317.25	+0.25	317.25	315.50	1	406
Dec	328.00	–1.00	329.00	326.00	3	315
Total					28,134	130,174

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	205.50	–1.00	208.50	204.25	32,774	181,383
Mar	218.50	–0.25	220.75	216.75	3,996	63,658
May	225.75	–0.75	228.00	224.50	1,321	34,505
Jul	232.00	–0.75	234.50	230.50	1,578	34,798
Sep	237.50	–1.25	240.00	237.00	123	5,718
Dec	246.25	–1.50	250.25	245.00	566	15,377
Total					40,364	336,682

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.35	+1.35	–	–	–	–
Nov	72.35	+0.60	72.35	72.00	86	809
Jan	75.00	+0.75	75.00	74.65	83	614
Mar	77.00	+0.75	–	–	–	60
May	78.80	+0.75	–	–	–	22
Total					139	1,685

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	526.25	–3.50	533.00	526.00	25,892	92,576
Jan	536.75	–3.00	542.75	536.50	2,643	25,601
Mar	547.25	–2.50	552.00	546.75	1,941	19,984
May	556.25	–2.50	562.50	556.00	722	7,877
Jul	564.50	–3.00	570.50	564.50	1,5[illegible]	10,072
Aug	565.00	–2.00	567.00	565.00	3	642
Total					33,232	161,862

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.97	–0.53	25.45	24.96	4,260	22,421
Dec	25.21	–0.46	25.72	25.15	7,058	48,153
Jan	25.30	–0.34	25.53	25.21	1,476	11,559
Mar	25.20	–0.28	25.35	25.08	769	16,421
May	25.08	–0.22	25.25	25.05	669	8,291
Jul	25.10	–0.13	25.27	25.00	674	8,231
Total					15,154	118,417

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	126.4	–0.4	128.4	126.2	5,671	21,710
Dec	131.2	+0.3	133.6	130.8	8,459	67,536
Jan	133.5	+0.4	135.2	133.2	1,562	15,899
Mar	138.2	+0.4	139.7	137.9	840	14,629
May	141.9	+0.4	143.0	141.9	307	7,862
Jul	146.8	–0.3	148.0	146.5	644	7,502
Total					17,033	140,442

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	–	–	–	–	3
Mar	130.6	+5.0	–	–	–	–
Apr	164.5	+6.5	165.0	162.0	122	1,939
May	174.5	+6.5	–	–	–	29
Jun	184.5	+6.5	–	–	–	–
Total					122	1,939

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	905	–10	–	–	–	91
Oct	960	–18	980	960	43	429
Jan	1005	–15	1005	1005	5	414
Apr	1010	–25	–	–	–	201
Jul	905	–15	–	–	–	204
Total					159	1,749

	Close	Prev
BFI	908	900

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	426.00	–3.00	426.00	426.00	10	372
Mar	451.50	–4.50	452.00	451.50	20	112
Total					30	482

FUTURES DATA
All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	989	+6	991	991	6	31
Dec	1023	+7	1030	1014	25,353	68,680
Mar	1048	+4	1056	1042	15,410	40,771
May	1068	+3	1074	1062	3,165	15,331
Jul	1084	+3	1092	1076	1,558	9,352
Sep	1101	+3	1108	1105	1,113	26,846
Total					48,837	173,083

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1533	+12	1542	1523	2,632	34,088
Mar	1571	+11	1578	1563	486	21,236
May	1597	+12	1601	1596	273	6,371
Jul	1624	+12	1628	1625	25	1,936
Sep	1649	+12	1647	1647	48	1,677
Dec	1676	+12	–	–	93	4,981
Total					3,866	74,082

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Sep 22		
Daily	1206.66	1197.00

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1671	–9	1695	1650	139	1,341
Nov	1591	–14	1617	1578	1,966	18,552
Jan	1544	–21	1575	1538	407	7,185
Mar	1521	–21	1548	1513	243	2,510
May	1506	–22	1510	1500	227	1,026
Jul	1498	–22	1495	1495	4	436
Total					2,986	31,071

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	103.05	+0.20	104.50	100.25	4,400	17,828
Mar	102.15	+0.30	103.50	98.75	845	7,587
May	102.75	–0.10	104.25	100.50	104	3,418
Jul	103.50	–0.55	104.25	101.60	21	1,543
Sep	105.00	–0.35	106.50	103.25	12	1,470
Dec	107.00	–0.45	107.00	106.00	3	468
Total					5,186	32,412

■ COFFEE (ICO) (US cents/pound)

		Prev. day
Sep 22		
Comp. daily	[illegible]	91.55
15 day average	96.24	96.75

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	216.6	–1.2	218.7	214.0	1,943	15,128
Mar	222.0	–2.0	223.3	219.6	949	14,091
May	226.2	–2.3	228.5	224.2	156	2,489
Aug	229.7	–2.3	232.0	227.2	172	1,763
Oct	230.0	–2.5	229.9	228.8	27	1,219
Dec	233.5	–2.8	–	–	–	136
Total					3,247	34,806

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	7.10	–0.09	7.21	6.82	13,515	37,220
Mar	7.44	–0.20	7.67	7.34	11,799	77,427
May	7.48	–0.25	7.75	7.45	2,186	13,161
Jul	7.61	–0.20	7.75	7.51	530	8,569
Oct	7.38	–0.21	3.21	7.95	508	3,981
Total					28,848	153,370

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	74.01	–0.89	75.15	74.00	745	715
Dec	76.07	–0.42	76.84	76.00	10,717	39,798
Mar	75.05	–0.34	75.65	75.00	1,592	21,160
May	74.75	–0.15	75.00	74.65	277	10,215
Jul	74.60	–0.10	74.80	74.40	250	6,670
Total					13,689	87,717

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	104.75	–1.10	105.40	104.00	1,849	15,891
Jan	107.70	–1.15	109.40	107.80	696	7,065
Mar	110.55	–1.15	112.20	110.50	822	4,427
May	112.95	–1.15	114.00	114.00	212	976
Jul	115.30	–1.10	–	–	12	322
Sep	117.30	–1.10	–	–	–	36
Total					3,592	28,591

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Sep 23	Sep 22	month ago	year ago
1474.5	1467.9	1523.7	1899.2

■ CRB Futures (Base: 1967 = 100)

Sep 22	Sep 21	month ago	year ago
202.78	201.72	–	–

■ GSCI Spot (Base: 1970 = 100)

Sep 22	Sep 21	month ago	year ago
153.20	152.21	141.44	197.83

LME WAREHOUSE STOCKS (tonnes)

Aluminium	–925	to	501,950
Aluminium alloy	+100	to	78,980
Copper	+4,550	to	367,300
Lead	–150	to	115,075
Nickel	–90	to	58,672
Zinc	+1,400	to	369,175
Tin	+50	to	8,590

Nuts and seeds Prices from Vardka London $ per m/t. Iranian pistachios 28/30 raw (in shell) naturally opened (round); crop 1997 at $3,100 FCA or 3,050 CFR from Iran. Slow sales before new crop. Turkish hazelnuts 13/15 and 11/13, for new crop indication $4,050 CFR. Market on the increase. Indian cashews crop 1998 CFR from top shippers, W320 at $5,700, W240 at $7,100. US almonds standard 5 per cent crop 1998 at $4,500. US walnuts Inshell/Hartley at 1,810 FAS. LHP market opened at 4,300 FAS. US Inshell sunflower seeds market is at 775 level for second-hand goods. Chinese pine kernels new crop at 13,000 CFR.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	60.975	–0.825	61.450	60.900	6,337	30,693
Dec	63.100	–0.800	63.500	62.875	3,574	33,155
Feb	63.750	–0.575	64.050	63.600	1,412	17,192
Apr	65.275	–0.600	65.650	65.100	1,117	8,223
Jun	62.425	–0.375	62.650	62.250	882	5,286
Aug	62.400	–0.275	62.650	62.250	407	2,012
Total					13,860	97,086

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	41.625	–0.250	42.125	41.250	2,812	10,571
Dec	40.075	–0.125	40.500	39.750	1,384	13,832
Feb	44.050	–0.150	44.400	43.775	1,132	5,979
Apr	46.000	–0.375	46.400	45.900	289	1,335
Jun	54.725	–0.525	55.300	54.600	108	1,447
Jul	55.800	–0.600	56.100	55.600	11	579
Total					6,382	34,098

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	47.750	–0.075	48.150	46.900	740	2,086
Mar	47.875	–0.050	48.000	46.750	52	333
May	48.400	–0.100	48.100	48.000	3	24
Total					862	2,169

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1250	79	113	7	18
1300	44	79	22	33
1350	20	53	48	55
■ COPPER (Grade A) LME	Nov	Feb	Nov	Feb
1600	79	117	28	56
1700	30	69	79	106
1800	9	37	166	170
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1550	61	81	20	67
1600	31	41	40	97
1650	18	35	75	126
■ COCOA LIFFE	Dec	Mar	Dec	Mar
975	60	88	12	14
1000	43	69	20	20
1025	30	55	32	31
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1400	-	130	24	-
1450	-	90	-	-
1500	35	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$13.95-4.08x	+0.17
Brent Blend (dated)	$14.57-4.72	+0.20
Brent Blend (Nov)	$14.59-4.64	+0.20
W.T.I.	$15.87-5.89x	+0.27

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$159-161	+2
Gas Oil	$129-130	+1
Heavy Fuel Oil	$71-73	[illegible]
Naphtha	$129-132	+1
Jet fuel	$146-148	+1.5
Diesel	$143-144	+1

■ NATURAL GAS (Pence/therm)

Bacton (Oct)	12.35-12.40	+0.165

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$289.45	-1.50
Silver (per troy oz)♣	488.00c	
Platinum (per troy oz.)	$353.00	+2.50
Palladium (per troy oz.)	$279.00	-5.0
Copper	78.0c	
Lead (US prod.)	48.0c	
Tin (Kuala Lumpur)	28.22r	
Tin (New York)	281.5	
Cattle (live weight)	77.54p	-0.32
Sheep (live weight)	71.05p	-4.45
Pigs (live weight)	79.38p	-1.73
Lon. day sugar (raw)	$216.00	+6.80
Lon. day sugar (Wte)	$218.70	+3.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£106.00	
Wheat (US Dark North)	Unq	
Rubber (Oct)♦	49.50p	+0.25
Rubber (Nov)♦	49.00p	+0.25
Rubber (KL RSS No1)	262.50m	+1.50
Coconut Oil (Phil)	$845.0v	+15.0
Palm Oil (Malay.)	$705.0	+5.0
Copra (Phil)	$412.5y	[illegible]
Soyabeans (US)	153.0	+1.0
Cotton Outlook 'A' index	71.85	-0.20
Wooltops (64s Super)	300p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. [illegible]

JOTTER PAD

CROSSWORD

No.9,795 Set by GALAPAGOS

ACROSS

1 As a small operator I'm returning north at once (6)
4 It's awkward to carry out without neat opening (8)
9 When last number is lower (6)
10 Twelve performances (8)
11 Copper has hideaway rejected by court (6)
12 Set off with escort around college (8)
13 Exclude lawyers (3)
14 Authority to accept note and issue again (6)
17 First couple desperate to get a home (7)
21 Single girl is brave (6)
25 Young offender is back in Upminster (3)
26 It's not rare to have finished first and last (8)
27 In African town king gave liberal openings (6)
28 Author made Eve grunt discontentedly (8)
29 Firm Pope rejects first litany (6)
30 Floral collection rejected by Herrick (8)
31 One's stab cut spiritual type (6)

DOWN

1 Such handiwork results from endless numerical confusion (8)
2 Law officers sign incomplete letter first (8)
3 This sort of singer works with repetitive movements (8)
5 Boss has nothing to replace qualification; the ass (6)
6 Bird conceals flower on moon (6)
7 Call secretary up to find missing link (6)
8 They are not inclined to argue the point in Arab state ((6)
12 DIY team breaks up before dark (7)
15 Kill backward dope (3)
16 To make good requires self-esteem (3)
18 All eternity in confusion (8)
19 Thread film with neat movement (8)
20 Cruel art is Sid's undoing (8)
22 Drink left by queen (6)
23 Brides sort out rubbish (6)
24 Braved storm, heroically perhaps (6)
25 Certainly! I ended revolution (6)

Solution 9,794

BUFFALOES HAWKS
E O P B P O R P
FOLIO STAIRCASE
O L S C R N T E
GOOSEBERRY SHOD
W M N O P W
ITERATE WOEISME
N R T A U L
JASMINE LYRICAL
E C N E L C
CAPE OFGOODHOPE
T E T I N I U V
INTROVERT VERDE
O A W L E E E N
NYLON DISCREDIT

هكذا من الاصل

FT MANAGED FUNDS SERVICE

nentals

Continued fall seen in price of coal

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

ABN AMRO Funds - Contd.

Aberdeen Fund Mngrs (Luxembourg) Ltd (o)

Foreign & Colonial Emerging Markets Ltd (o)

Foreign & Colonial Portfolios Fd Sicav(o)

Mercury Asset Management - Contd.

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

OFFSHORE INSURANCES

Aberdeen International Ltd

صكنا من الاجل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†¥	427	+18	648	329	1,851	5.2	10.4
Bulmer (HP)		315	-3	485½	295	-	6.0	13.6
Burn Stewart	‡	11	-	58½	6½	2	19.3	-
Diageo		518	-7½	798	432	13,268	4.3	22.6
Glenmorangie A		807½	—	975½	755	-	2.2	18.8
B		887½	—	1090	390	-	1.0	41.8
Highland	†	233	[illegible]	325	225	1,316	4.8	10.8
5¾pc Cv Sb Bd		93½	+½	99½	86½	-	6.3	-
Kirin Y		459¾	-3¼	588	416¼	-	1.1	-
Matthew Clark	‡	126xd	—	288	136	58	12.3	4.3
Merrydown		34	-	74½	32½	-	-	Φ
Seagram C$		£19	+⅛	£28½	£18½	-	1.4	-

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
ABN Amro Fl		[illegible]	[illegible]	[illegible]	[illegible]	-	2.9	15.8
ANZ A$		[illegible]	[illegible]	518½	[illegible]	-	6.7	7.2
Abbey National	†	1100xd	-11	1345	779½	2,003	3.7	16.2
Alliance & Leicester		849½xd	+½	1032	585	1,131	3.3	18.0
Allied Irish I£		810	+33½	1000½	496½	-	2.4	22.5
Anglo Irish I£		142½	+1	188	90½	388	2.7	19.7
Asahi Y		180½	-1½	384½	170	-	1.4	-
Banco Bilbao Viz Pta		[illegible]	[illegible]	[illegible]	[illegible]	-	2.1	34.2
Banco Santander Pta		[illegible]	[illegible]	[illegible]	[illegible]	-	4.6	11.6
Bank Ireland I£		992½	+35	1332½	743½	-	2.5	16.2
Bank Scotland		607	+7	813	390½	2,798	2.0	18.2
9¼pc Ird Pf		172½	-½	174	135½	-	6.7	-
9¾pc Ird Pf		181½	[illegible]	183½	140½	-	6.7	-

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS	[illegible]	[illegible]	—	[illegible]	£472	-	-	-

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves containes in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other offical estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other offical estimates for 1998-99.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other offical estimates for 1997.
K Yield based on prospectus or other offical estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other offical estimates for 1997-98.
P Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other offical estimates.
W Pro forma figures.
Z Dividend yield is nil.

Abbreviations:
ₓd ex dividend,
ₓc ex scrip issue,
ₓr ex rights;
ₓa ex all;
ₓc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http//www.ft.com, which also has the closing share prices posted on these pages.

LONDON STOCK EXCHANGE

Rate cut hope helps Footsie to another big gain

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Indications from a member of the US Federal Reserve's open market committee that the central bank was looking more favourably at a reduction in US interest rates produced another encouraging performance from London stocks yesterday.

At the close, and after a late flurry of support, the FTSE 100 had gained 111.4 to 5,214.7 for a two-day rise of 224.4, or 4.4 per cent.

However, sizeable gains in the leaders did not follow through into the rest of the market.

Second-liners were restrained by continuing worries about more profit warnings and the FTSE 250 index ended a disappointing 8.0 down at 4,564.2. The FTSE SmallCap also suffered, closing 3.4 down at 2,032.6.

William McDonough, deputy chairman of the Federal Reserve's open market committee and president of the Federal Reserve Bank of New York, hinted on Tuesday at a change of heart on interest rates.

And investors were pinning their hopes that Alan Greenspan, chairman of the Fed, would add to the growing mood of optimism in global markets, by signalling his agreement with a cut in rates, when he addressed the Senate last night.

Wall Street kicked off last night's session in robust fashion, posting a 100-point advance as trading in London drew to a close.

Dealers warned, however, that the Fed chairman made a habit of wrong-footing markets, as he did recently when he said there were then "no endeavours" to orchestrate a round of global interest rates cuts in order to stabilise world markets and economies.

The Fed's open market committee meets next Tuesday to determine interest policy.

Also helping to keep the London market on the upward path was another dose of takeover speculation, this time relating to two FTSE 100 constituents, Reed International and Cable & Wireless.

That speculation countered various pockets of uncomfortable news for the market, notably comments from the Department of the Environment that it would press for the water companies to fund the clean-up of rivers and other waterways and cut prices by 10 per cent.

And Peter Mandelson, the trade and industry secretary, delivered the thumbs down to Ladbroke's acquisition of the Joe Coral betting shops chain, which was deemed a threat to competition by the Monopolies & Mergers Commission.

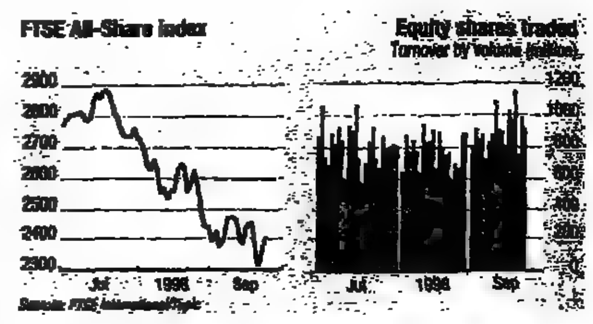
Sentiment in the market was additionally dented by another sequence of profit warnings from medium and smaller companies.

Brake Brothers, the food distribution group, and Bowthorpe, the electronics company, were the latest in a long list of companies to issue warnings about a deterioration in their profits outlooks.

One feature of the trading session was the sluggish level of turnover for much of the day, although activity built up substantially towards the finish.

By the end of the day's trading turnover was 910m shares. FTSE 100 stocks accounted for just over half the total.

FTSE All-Share Index / **Equity shares traded** Turnover by volume (million)



Indices and ratios

FTSE 100	5214.7	+111.4	FT 30	3153.8	+57.4
FTSE 250	4564.2	−8.0	FTSE Non-Fins p/e	20.38	19.64
FTSE 350	2481.3	+43.4	FTSE 100 Fut Dec	5290.0	+105.0
FTSE All-Share	2403.97	+39.80	10 yr Gilt yield	5.14	5.02
FTSE All-Share yield	3.27	3.38	Long gilt/equity yld ratio	1.54	1.47

Best performing sectors

1 Insurance +5.0
2 Oil Integrated +4.7
3 Leisure & Hotels +4.7
4 Resources +4.3
5 [illegible] +3.5

Worst performing sectors

1 Other Financial −0.8
2 Electronic & Elect Equip −1.5
3 Paper, Pckg & Printing −1.8
4 Distributors −2.2
5 Water −2.3

Broker talk hits retailer

COMPANIES REPORT

By Joel Kibazo, Peter John and Martin Brice

A stock overhang and negative broker comments sent retailer Storehouse tumbling.

The shares fell 24½ or 11.7 per cent to 185p.

Analysts emerging from a briefing with the company late on Tuesday left in sombre mood, with Storehouse said to have indicated the manufacturing slowdown had already started having an impact on the high street.

With the company set to report interim figures next month, BT Alex Brown cut its half-year forecast by £2.5m to £36.5m and reduced full-year profit expectations by £8m to £127m.

Reports of a large line of stock on offer also damped sentiment.

The tide turned in the water sector as investors took advantage of a muddled government announcement to bale out of a sector that had outperformed the broad market by 27 per cent since the start of May.

John Prescott, the deputy prime minister, announced a five-year programme of environmental improvements expected to cost up to £8.5bn. He said he expected a real price cut of at least 10 per cent in annual bills in 2000.

The comments presented an opportunity to take profits in an area that has been seen as a classic safe haven because of its lack of exposure to overseas turmoil but which, nevertheless, carries its own uncertainty in the form of next month's regulatory review.

Richard Alderman, utilities specialist with Merrill Lynch, said: "The market is not certain whether the intended capital expenditure programme put forward by the government will be adequately funded by the regulator."

Merrill Lynch reiterated its negative stance on the sector and told clients it preferred electricity and gas stocks.

However, Credit Lyonnais Laing said the way the announcement had been made – aired on the radio before the market opened and then formally announced mid-morning – had led to confusion that was not resolved when the details were released.

The broker believes the underlying impact may be far less severe than the initial picture suggests.

Among the fallers in the sector, Severn Trent was the worst performer in the Footsie, with a drop of 40 to £10.62, closely followed by United Utilities, which fell 32 to 908p.

Thames Water fell 8 to £11.15 and Hyder 41 to 938p.

A powerful cocktail of positive influences lifted British Aerospace off the low levels to which it had fallen as recent fears over payments for its Al Yamamah defence contract had moved to the front of investors' concerns.

However, yesterday those fears seemed to wane as the stock achieved one of the best performances in the Footsie, up 26 to 377p.

Foremost among those factors powering the shares was said to be buying interest from US institutions, while the recent rebound in the oil price to above $14 a barrel eased sentiment over the Al Yamamah payments.

Siebe shone in the engineering sector. It gained 7½ to 196½p as some 3.3m shares were traded.

The company has recently been seeing brokers and institutions and is said to be talking a bullish story.

Some houses are factoring in zero growth for the sector but Siebe is said to be enjoying growth approaching double digits.

Elsewhere in the sector, Bowthorpe was down almost 10 per cent, or 34 to 323½p, after it said growth would slow in the second half.

Royal & Sun Alliance put on a sprightly performance for the second straight day. The shares were the best performers in Footsie, with a gain of 46½ to 553p.

They were partly helped by Monday's news that the stock would trade in New York as American Depositary Receipts.

GRE increases

The sector was also boosted by its exposure to a rising market. And Guardian Royal Exchange received a fillip from revived takeover speculation. The shares lifted 19½ to 277½p.

ICI bounced 15½ to 487p, while Colt Telecom shed 20 to 590p as the market became aware that the Footsie's newest entrant had almost bypassed the chemicals leader in market valuation.

Shell Transport, battered by a profits warning last week, recovered 14 to 371p helped by a continued recovery in the underlying oil price.

The price has risen more than a dollar over the past week, helped by technical and weather-related buying.

British Petroleum, the oil leader most exposed to the vagaries of underlying prices, rose 29 to 879p.

Gaming and hotels company Ladbroke Group moved strongly ahead, the shares gaining 17½ to 222p after it indicated it had received approaches from "venture capitalists and other parties" for the Coral betting chain it bought in January from Bass.

The prospect of the disposal came after the company was ordered by the UK government to divest the betting shop chain within the next six months, following a Monopolies & Mergers Commission referral of the deal.

Dealers said hopes of a sale around the £363m mark may be optimistic given current market uncertainity.

Stanley Leisure was named as a possible buyer of the Coral chain. Shares in the group followed the firm market trend, closing 11 ahead at 315p.

Retailer Next gained 25½ to 399½p after several of the company's directors went on a shopping spree for stock. The list included chief executive David Jones, who acquired 100,000 shares in the high street fashion and catalogue retailer at 370½p a share.

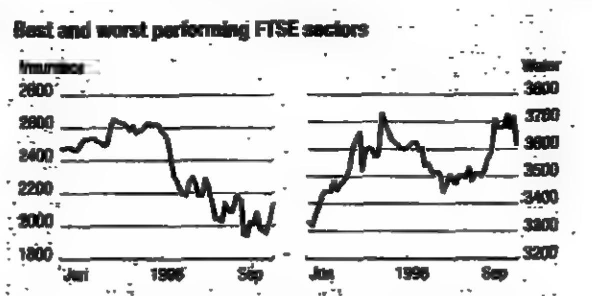
In contrast, a profits warning from Brake Brothers left the shares as the worst performers in the FTSE 250. They gave up 112½ or 15 per cent to 635p.

Rentokil Initial shares rose 23½ to 338½p before a series of meetings with US institutional investors next month.

Video publisher VCI stood at a premium to the increased 120p a share bid from Kingfisher as speculation mounted that rival bidder Scottish Media might re-enter the fray with a 130p offer.

VCI gained 3 to 123½p. SMG was up 1½ at 687½p while Kingfisher was up 24½ at 519½p.

Best and worst performing FTSE sectors



FT 30 INDEX

	Sep 23	Sep 22	Sep 21	Sep 18	Sep 17	Yr ago	*High	*Low
FT 30	3153.8	3096.4	3036.2	3102.10	3152.9	3278.2	3984.0	3096.4
Ord. div. yield	3.36	3.42	3.49	3.43	3.37	3.45	4.22	2.72
P/E ratio net	19.98	19.58	19.22	19.57	19.91	21.33	25.41	15.80
P/E ratio nil	19.88	19.50	19.14	19.49	19.82	21.04	25.19	15.71

FT 30 since compilation: high 3920.3 11/08/98; low 49.4 26/06/40. Base Date: 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3096.4	3135.6	3128.8	3131.4	3127.8	3130.1	3139.7	3129.9	3158.1	3096.4

STOCK MARKET TRADING DATA

	Sep 23	Sep 22	Sep 21	Sep 18	Sep 17	Yr ago
SEAQ bargains	54,359	55,506	75,503	75,499	56,[illegible]	39,[illegible]
Equity turnover (£m)†	-	2727.1	[illegible]	3026.9	[illegible]	2752.2
Equity bargains†	-	41,414	44,042	44,490	49,500	42,640
Shares traded (m)†	-	771.1	830.3	871.5	980.7	748.2
Total market bargains‡	-	[illegible]	[illegible]	70,795	56,130	-
Total turnover (£m)‡	-	4056.5	4233.4	4604.4	4308.6	-
Total shrs traded (m)‡	*943.1	1062.7	1110.4	1207.9	1216.0	-
Tradepoint turnover (£m)	30.6	34.1	13.9	25.4	23.5	2.9
Tradepoint shrs traded(m)	9.8	8.2	5.4	8.3	7.5	0.8

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	824	Total Highs	38	Total contracts	22,878
Total Falls	781	Total Lows	212	Calls	13,144
Same	1,366			Puts	9,934

Sep 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5245.0	5290.0	+105.0	5304.0	5212.0	27896	203387
Mar	-	5333.0	+105.0	-	-	0	1943

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Dec	-	4602.0	-8.0	-	-	0	7060

FTSE 100 INDEX OPTION (LIFFE) (*5215) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

-	F.P.	13.9	114½	100½	†Hiscox	109½		53.8	-	4.1	-
§	F.P.	4.19	16	10	Murray Extra Fin Cap	12		-	-	-	-
$100	F.P.	29.3	109	[illegible]	[illegible]	107		b7.05	-	9.3	-
§	F.P.	23.9	101½	98¾	Do Zero Div Pf	100¼	+¼	-	-	-	-
§92	F.P.	4.02	32½	[illegible]	[illegible]	28½		-	-	-	-
§95	F.P.	4.06	98½	62½	†Wheato & Comm Fin	65½		20.6	-	1.1	15.8
-	F.P.	-	35½	22½	Walker Greenbank B	34		-	-	-	-
§2	F.P.	2.46	2¼	2¼	†Wiltshire	2¼		-	-	-	-

‡ [illegible] § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998 High	1998 Low	Stock	Closing price p	+or-
520	Nil	30/9	4pm	3½pm	Cammell Laird	3½pm	
10.25	Nil	5/10	3½pm	½pm	Tadpole Tech	½pm	
7	Nil	12/10	7¾pm	¼pm	Ultima Network	¼pm	

pm premium.

FTSE GOLD MINES INDEX

	Sep 22	% chg on day	Sep 21	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	980.41	−1.4	893.86	1318.01	1.67	-	1538.48	701.86
Regional Indices								
Africa (9)	1032.79	−4.8	1084.85	1253.89	4.38	39.90	1525.29	766.93
Australasia (7)	1041.81	+0.5	1037.04	1451.18	0.30	7.32	1809.85	816.93
Americas (11)	912.22	0.0	912.[illegible]	1305.[illegible]	0.64	53.57	1574.16	647.89

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Sep 23	Day's chge%	Sep 22	Sep 21	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5214.7	+2.2	5103.3	4990.3	5077.2	3.08	2.62	1.98	20.49	117.80	2298.00
FTSE 250	4564.2	−0.2	4572.2	4553.1	4722.9	3.93	3.33	2.08	15.34	106.63	1971.30
FTSE 250 ex Inv Tr	4606.0	−0.3	4621.6	4607.7	4734.1	4.07	3.47	2.14	14.34	110.47	1998.22
FTSE 350	2481.3	+1.8	2437.9	2391.5	2440.7	3.23	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

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FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	114	510	+15
AMVESCAP	740	383	-4
ASDA Group	11,700	174½	+3
Abbey National	2,900	1100	-11
Alliance & Leicester	1,100	849½	+16
Allied Domecq	1,900	427	+14

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 23 / Sch)

BELGIUM/LUXEMBOURG (Sep 23 / Frs.)

CZECH REP (Sep 23 / Koruna)

DENMARK (Sep 23 / Kr)

FINLAND (Sep 23 / Mka)

FRANCE (Sep 23 / Frs)

GERMANY (Sep 23 / Dm.)

GREECE (Sep 23 / Drachma)

ITALY (Sep 23 / Lira)

NETHERLANDS (Sep 23 / Fls.)

NORWAY (Sep 23 / Kroner)

SWEDEN (Sep 23 / Kronor)

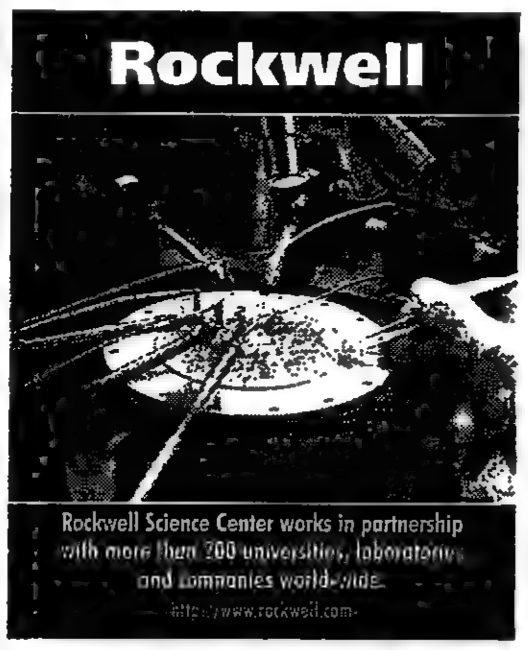
SWITZERLAND (Sep 23 / Frs.)

POLAND (Sep 23 / Zloty)

PORTUGAL (Sep 23 / Escudo)

SPAIN (Sep 23 / Pta.)

TURKEY (Sep 23 / Tk Lira)



PACIFIC

JAPAN (Sep 22 / Yen)

AUSTRALIA (Sep 23 / Aus$)

HONG KONG (Sep 23 / H.K.$)

INDONESIA (Sep 23 / Rupiah)

MALAYSIA (Sep 23 / MYR)

NEW ZEALAND (Sep 23 / NZ $)

SINGAPORE (Sep 23 / S$)

SOUTH KOREA (Sep 23 / Won)

TAIWAN (Sep 23 / TW $)

THAILAND (Sep 23 / Baht)

AMERICAS

CANADA

TORONTO (Sep 23 / Can $)
4 pm close

MONTREAL (Sep 23 / Can $)
4 pm close

MEXICO (Sep 23 / Peso)
12:30pm

AFRICA

SOUTH AFRICA (Sep 23 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock

NATIONAL AND REGIONAL MARKETS	TUESDAY SEPTEMBER 22 1998: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 21 1998: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (72)	171.16	0.0	150.70	146.33	149.52	195.31	0.6	3.84	171.19	150.74	144.39	149.25	194.23	238.24	163.08	235.28
Austria (22)	180.03	1.8	158.52	153.91	157.70	167.60	1.9	2.15	176.86	155.74	140.16	154.73	154.64	253.73	176.86	202.03
Belgium (22)	347.09	0.2	305.62	298.74	304.04	297.53	0.3	2.30	346.54	305.13	292.28	303.14	296.57	398.52	234.33	244.19
Brazil (32)	135.78	1.6	119.56	116.09	118.94	295.78	1.7	3.12	133.69	117.71	112.76	116.95	290.72	[illegible]	112.68	280.06
Canada (119)	179.07	0.8	157.68	153.10	156.86	198.21	0.8	2.02	178.05	156.78	150.17	155.75	196.55	248.78	187.18	224.94
Denmark (34)	435.35	3.6	383.33	372.20	[illegible]	379.57	3.5	1.71	420.12	369.92	354.34	367.50	368.74	537.33	389.68	390.80
Finland (28)	386.70	3.6	340.49	330.60	[illegible]	416.33	3.8	2.21	373.14	328.55	314.71	326.41	401.22	506.46	267.59	312.14
France (78)	276.38	[illegible]	243.35	236.29	242.10	244.80	0.7	2.56	274.86	242.01	231.82	240.43	243.25	345.16	217.58	236.16
Germany (55)	253.64	3.1	223.34	216.85	222.18	222.18	3.2	1.43	246.02	216.62	207.55	215.21	215.21	325.61	204.80	225.44
Greece (37)	258.99	3.3	228.04	221.42	226.86	537.09	2.8	1.75	250.64	220.69	211.40	219.25	522.48	333.28	243.18	–
Hong Kong, China (66)	222.89	2.6	196.25	190.55	195.24	221.73	2.6	6.78	217.15	191.20	183.15	189.95	216.09	518.79	190.64	495.44
Indonesia (26)	20.09	5.5	17.69	17.18	17.60	136.82	5.5	4.76	19.04	16.77	16.06	16.66	129.68	156.30	19.04	149.32
Ireland (16)	421.13	0.6	370.81	360.04	368.89	398.35	0.6	2.38	410.66	368.65	353.12	366.24	396.01	580.44	358.60	382.35
Italy (54)	140.00	3.8	123.27	119.69	122.63	174.05	3.9	1.66	134.89	118.77	113.77	118.00	167.46	184.49	103.30	112.12
Japan (480)	80.21	-1.1	70.63	68.58	70.26	68.58	0.3	1.15	81.06	71.39	68.38	70.92	68.38	123.57	78.40	119.34
Malaysia (106)	109.29	1.2	96.23	93.44	95.73	159.95	1.2	[illegible]	107.94	95.05	91.04	94.42	157.08	319.52	73.52	294.57
Mexico (29)	1032.69	4.5	909.29	882.86	904.56	11375.61	2.1	2.49	988.42	870.31	833.65	864.63	11141.81	1901.98	787.15	1858.80
Netherlands (27)	429.14	4.3	377.86	366.88	375.90	372.20	4.5	2.50	411.37	362.21	346.96	359.85	358.23	552.38	380.20	410.28
New Zealand (14)	46.54	-2.0	40.98	39.79	40.77	50.00	-0.4	6.14	47.50	41.82	40.06	41.55	50.21	95.87	46.54	91.89
Norway (37)	205.49	2.5	180.93	175.68	180.00	209.35	2.7	3.01	200.58	176.61	169.17	175.46	203.83	374.64	280.58	341.38
Philippines (22)	44.43	-4.4	39.12	37.99	38.92	98.54	-4.1	1.86	46.47	40.92	39.20	40.65	102.72	108.98	42.48	100.91
Portugal (18)	227.38	-0.9	200.21	194.40	199.18	268.84	-0.7	1.21	229.43	202.01	193.51	200.69	270.61	299.39	227.38	–
Singapore (41)	116.02	1.5	102.16	99.19	101.63	92.63	1.4	3.25	114.36	100.68	96.44	100.03	91.36	304.65	102.45	300.64
South Africa (30)	176.50	5.5	155.41	150.90	154.61	228.77	2.2	3.93	167.23	147.38	141.10	146.34	223.84	346.20	151.55	326.21
Spain (31)	301.16	3.6	265.18	257.48	263.81	327.56	4.1	2.33	290.81	256.06	245.27	254.39	314.71	417.73	236.28	266.40
Sweden (48)	439.16	1.9	386.69	375.46	384.69	612.99	1.3	2.30	430.92	379.42	363.45	376.95	505.27	539.19	430.92	515.63
Switzerland (28)	351.87	1.1	309.82	300.82	308.22	303.26	1.6	1.37	347.87	306.30	293.40	304.30	298.42	438.46	301.11	[illegible]
Thailand (36)	9.61	1.9	8.46	8.21	8.42	15.15	1.7	6.23	9.43	8.30	7.95	8.25	14.88	45.52	8.15	38.26
United Kingdom (209)	334.06	2.1	294.14	285.60	292.62	294.14	2.1	3.32	327.26	288.15	276.02	286.28	288.15	401.84	314.38	319.35
USA (622)	420.56	0.6	370.31	359.55	368.40	420.56	0.6	1.56	418.10	368.14	352.64	365.74	418.10	485.88	358.31	[illegible]
Americas (802)	374.81	0.6	330.11	320.52	328.41	317.90	0.6	1.59	372.62	325.10	314.28	325.95	315.97	437.03	326.79	355.46
Europe (745)	307.35	2.2	270.62	262.76	269.22	278.10	2.4	2.42	300.59	264.67	253.52	262.94	271.70	388.24	267.44	281.56
Eurobloc (351)	88.08	2.6	77.56	75.30	77.15	83.59	2.7	2.06	85.88	75.62	72.44	75.13	81.28	113.28	85.88	–
Nordic (148)	403.44	2.8	355.23	344.91	353.39	402.60	2.3	2.22	393.22	346.24	331.66	343.98	393.58	555.97	388.51	437.02
Pacific Basin (863)	85.45	-0.8	75.24	73.05	74.85	74.14	0.5	1.93	[illegible]	75.72	72.53	75.22	73.76	138.07	83.29	135.04
Euro-Pacific (1608)	177.87	1.4	156.62	152.07	155.81	150.80	1.8	2.29	175.34	154.39	147.83	153.38	149.00	[illegible]	172.03	196.19
North America (741)	404.38	0.6	356.06	345.72	354.22	405.32	0.6	1.58	402.02	353.98	339.07	351.67	402.92	468.20	349.86	378.72
Europe Ex. UK (536)	284.11	2.3	250.16	242.89	248.86	262.09	2.5	1.97	277.62	244.44	234.15	242.85	255.70	365.32	236.86	254.59
Europe Ex. Eurobloc (394)	84.74	[illegible]	74.61	72.45	74.23	82.98	2.0	2.80	[illegible]	73.20	70.11	72.72	81.37	103.93	83.13	–
Europe Ex. UK Ex. Eurobloc (185)	83.97	1.6	73.93	71.79	73.55	80.54	1.3	1.68	82.62	72.74	69.68	72.27	79.14	109.21	82.62	–
Pacific Ex. Japan (383)	138.57	1.1	122.01	118.47	121.38	148.05	1.4	4.97	137.13	120.72	115.64	119.93	146.03	277.07	128.26	271.32
World Ex. Eurobloc (2098)	87.48	0.7	77.01	74.77	76.61	87.74	0.9	1.98	86.85	76.47	73.25	75.97	87.00	103.16	83.83	–
World Ex. US (1827)	178.07	1.5	156.79	152.24	155.98	155.33	1.8	2.38	175.51	154.54	148.02	153.53	152.53	221.91	175.30	200.82
World Ex. UK (2240)	248.90	0.9	219.16	212.79	218.03	225.69	1.1	1.74	246.76	217.27	208.12	215.86	223.55	290.02	234.36	255.53
World Ex. Japan (1969)	343.50	1.2	302.45	293.67	300.89	333.82	1.2	1.99	[illegible]	298.31	286.23	296.86	329.71	471.23	300.93	332.73
The World Index (2449)	256.16	1.0	225.55	219.00	224.38	232.14	1.1	1.91	253.64	223.33	213.92	221.57	229.49	386.96	241.30	261.01

Emerging markets: IFC Investable indices

Dollar terms

Latest indices were unavailable for this edition.

♣ FT Free Annual Reports Club

4 pm close September 23

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1998 High	1998 Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close	Chng
[illegible]	[illegible]	Xerox x	1.44	1.7	89	10129	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Xtra Corp			14	150	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Yankee Egy x	1.38	5.6	19	[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	York Int x	0.48	1.4	20	1707	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zapata	0.20	2.4	5	3522	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zenith Nat	1.00	3.3	16	41	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zeste Inc x	0.70	10.9		101	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	ZweigFdG	1.08	9.9		738	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	Zweig Tot x	0.84	9.8		1271	[illegible]	[illegible]	[illegible]	[illegible]

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. Dealings suspended

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 22	Sep 21	Sep 18	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	7897.20	7933.25	7895.66	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.00	104.94	106.06	108.05 (18/5)	104.42 (11/5)	108.05 (18/9/98)	54.99 (1/10/81)
Transport	2865.29	2892.64	2814.67	3686.02 (15/4)	2816.75 (4/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	295.56	294.11	293.98	298.90 (22/9)	262.66 (9/1)	298.96 (22/9/98)	10.53 (8/7/32)

DJ Ind. Day's high 8030.29 (8009.43) Low 7810.47 (7653.04) (Theoretical)
Day's high 7986.80 (7945.35) Low 7865.75 (7711.06) (Actual)

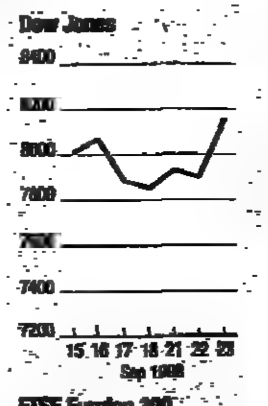
Standard and Poors	Sep 22	Sep 21	Sep 18	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1029.83	1023.89	1020.09	1186.75 (17/7)	927.68 (9/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials	1224.88	1218.75	1213.64	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial	111.81	110.72	110.78	147.89 (14/7)	102.26 (10/9)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	510.88	507.43	507.54	608.75 (17/7)	480.60 (31/8)	608.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	833.45	828.33	827.16	763.87 (22/4)	593.07 (31/8)	753.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1697.80	1680.43	1663.77	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	368.24	362.64	363.26	491.41 (21/4)	337.95 (31/8)	491.41 (21/4/98)	123.36 (7/12/90)

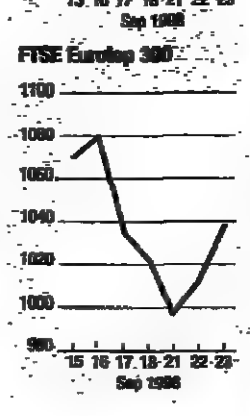
RATIOS

	Sep 18	Sep 11	Sep 4	Year ago
Dow Jones Ind. Div. Yield	1.89	1.91	1.95	1.67
	Sep 16	Sep 9	Sep 2	Year ago
S & P Ind. Div. yield	1.40	1.43	1.47	[illegible]
S & P Ind. P/E ratio	30.41	29.54	28.84	25.37

US DATA

[illegible]





JAPAN

	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	(c) 13780.81	13597.30	17264.34	13597.30	38915.9	85.25	

Day's high: --. Day's low: --

TOKYO TRADING ACTIVITY — Volume: 311,000,000

[illegible]

FRANCE

	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3423.78	3347.98	3342.85	4388.48	2862.54	4388.48	984.61

Day's high: 3430.24. Day's low: 3341.53.

PARIS TRADING ACTIVITY

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Alcatel	3,241,838	570	+58
FrTele	2,312,447	380	+5.6
TotalB	2,181,214	750	+40
RhonPA	2,068,441	221.5	+6
Usinor	1,912,441	59	-1.85
SuezLy	1,672,358	864	-42
ElfAqu	1,532,477	781	+48
Vendi	1,531,068	1120	-21
Paribas	[illegible]	384.2	+4.2
Axa	980,418	572	+10

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
BIC	310.1	+31.1	+11.1
Alctel	570	+56	+10.9
Legrnd	1354	+133	+10.9
Schndr	308.5	+28	+10.0
Downs			
Dilma	63.2	-14.1	-18.2
GrpGTM	428	-40	-8.6
SommrA	[illegible]	-11.8	[illegible]
Moulnx	93.3	-4.7	-4.8

GERMANY

	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	4889.38	4575.15	4433.87	6171.43	4067.28	6171.43	931.18

Day's high: 4901.39. Day's low: 4581.91.

FRANKFURT TRADING ACTIVITY — Volume: n/a

[illegible]

UK

	Sep 23	Sep 22	Sep 21	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5214.7	5103.3	4990.3	6179.00	4990.30	6179	986.9

Day's high: 5218.5. Day's low: 5103.3.

LONDON TRADING ACTIVITY — Volume: 943,100,000

[illegible]

INDEX FUTURES

	Open	Sett price	Change	High	Low
S&P 500					
Dec	992.50 1036.80	1051.40	+21.90	1053.50	1034.50
Mar	1061.30	1061.00	+11.70	1063.00	1058.00
Nikkei 225					
Dec	13550.0	13800.0	+310.0	13830.0	13440.0
Mar	-	-	-	-	-

Open interest figures for previous day.

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ STOCK MARKET

4 pm close September 23

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close September 23

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Investors await Fed hints on interest rates

WORLD OVERVIEW

There was a distinct air of *déjà vu* about global markets yesterday as, just like last Wednesday, investors waited to see if Alan Greenspan, the chairman of the US Federal Reserve, would hint at lower interest rates, *writes Philip Coggan.*

Last week, the market was disappointed by Mr Greenspan but on Tuesday hopes of a cut revived when William McDonough, deputy chairman of the Federal Reserve open market committee, said: "I believe the balance of risk has shifted from one about inflation to one of concern about adequate growth."

Some analysts believe that the Fed could cut rates when it meets next Tuesday.

Hopes of rate cuts have flickered over the last fortnight but US and European central banks have ruled out co-ordinated cuts to stimulate the global economy.

Keith Wade of Schroder Economics said: "It appears unlikely that the Treasury or the Fed will take actions that carry a substantial risk of reigniting the flames of financial speculation.

"The Fed is concerned that the inflation performance of the US economy has not been particularly outstanding recently.

"In other words, in the absence of some unforeseen debacle, don't count on any dramatic interest rate cuts by the Fed any time soon."

With Tokyo closed for a holiday yesterday, Asian markets were fairly quiet, although Thailand's recovery continued. However, the yen weakened against the US dollar on concern that Japanese financial reform may have stalled.

European bourses took their opportunity to continue the rally that began on Tuesday.

The Dax in Frankfurt gained 3.8 per cent and the CAC 40 in Paris 2.3 per cent. Figures from two German states showed that inflation remains negligible in the core euro area.

Wall Street opened strongly as traders awaited Mr Greenspan's address to the Senate, with the Dow Jones Industrial Average up more than 100 points in early trading in New York.

Internet stocks rallied strongly.

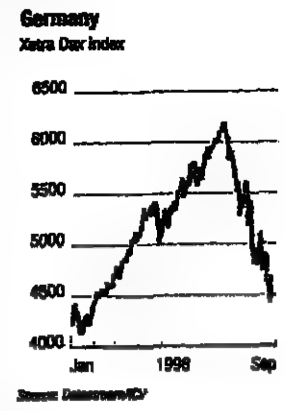
But at least one firm is yet to be convinced that world stock markets have turned the corner. "Bonds remain the optimal asset class. At worst current yields are sustainable, at best further gains may yet be obtained," said James Montier, global strategist at BT Alex Brown.

"Earnings estimates are still too high. Bonds are likely to continue to outperform equities until such time as investors start to accommodate more realistic earnings expectations into their views."

MARKET FOCUS

Crisis turns poll into sideshow

Germany is in the grip of election fever ahead of Sunday's national elections. But it is not the poll – and a possible end to Helmut Kohl's long reign as chancellor – that has sent the Frankfurt stock market tumbling. Instead, it is the global financial crisis that has turned the poll into a relatively unimportant sideshow for international investors.



Turn back the clock six months and Germany's investment climate was very different from what it is today. Politicians were squabbling over the pace of reform of the creaking tax and social benefits systems, to the dismay of the country's corporate leaders.

But the stock market was roaring ahead. Its remarkable rise was supported by the bull market in US stocks. There was also a growing belief among investors that German companies were launching US-style reforms to boost profitability and so leave the country's domestic problems behind. It appeared that consumer spending was accelerating and companies were investing more.

But Asia's financial crisis and Russia's descent into chaos has changed all that. Amid the general sell-off, the German Dax index has fallen sharply. It is now up only 10 per cent on the year to date and has fallen by about a fifth from its peak, a far steeper decline than that seen in the US.

Among the big losers, German banks have suffered because of their exposure to Asia and Russia. Not coming altogether clean on the size of their losses has not helped matters either because investors have simply become more suspicious. But the crisis has also hit Germany's big industrial companies. The crisis in Japan and elsewhere means a large downwards revision to world growth forecasts, with the implication that Germany's leading multinationals are now viewed less favourably.

According to Tim Bond, analyst at Barclays Capital in London, investors are also questioning the thesis that buoyant consumer spending and investment would save the German economy, amid signs of deterioration in business sentiment.

There is also scepticism about the actual extent of restructuring in German companies. But even though the world crisis has highlighted these problems, it is likely they would be quickly forgotten again should the Dow suddenly start to rise. "What the Dax does depend on is the Dow," said Alison Cottrell, economist at PaineWebber.

Against this backdrop, the German elections occupy only a small part of the attention of the global investment community.

The outcome most analysts appear to expect is a "grand coalition" government led by Gerhard Schröder, the Social Democrat challenger, with Wolfgang Schäuble, Mr Kohl's deputy, as second in command.

They prefer this less-than-perfect outcome to a coalition led by Mr Schäuble but with Oskar Lafontaine, the leftwing Social Democrat politician that business probably fears most, as his second in command.

Graham Bowley

Dow climbs back above 8,000 level

AMERICAS

US shares rallied in early trading, sending the Dow Jones Industrial Average back above the 8,000 level in anticipation of Federal Reserve chairman Alan Greenspan's testimony before the Senate budget committee, *writes John Labate in New York.*

Speculation has mounted that Mr Greenspan might use the event to give new insight into the direction of monetary policy. A growing number of analysts expect the Fed to ease the key short-term interest rate in the near term in light of global turmoil and evidence of a US economic slowdown.

The Federal open market committee will meet next Tuesday to decide interest rate policy.

"I find this rather curious ahead of testimony that might not fit the bill," said Larry Wachtel, market analyst at Prudential Securities in New York. "There could be some disappointment."

However, market breadth was strongly positive ahead of Mr Greenspan's testimony. By early afternoon, the Dow was 124.36 or 1.6 per cent higher at 8,021.56. The Standard & Poor's 500 had rallied as well, up 17.69 to 1,047.32.

High-tech shares did even better with internet shares making large strides, sending the Nasdaq composite more than 2.2 per cent or 38.23 higher to 1,736.03.

Among Dow components, cyclical shares were especially strong, with United Technologies surging 6.1 per cent or $4¾ to $80¼ and Caterpillar up $2 or 4.8 per cent to $44. Coca-Cola was also a strong riser, up 2\frac{13}{16}$ or 5 per cent to 59\frac{3}{16}$.

In contrast, the Treasury market was mixed. The benchmark long bond came off slightly, losing $\frac{1}{8}$ at 104$\frac{13}{32}$ and lifting yield to 5.179 per cent.

The technology sector was very strong, with the Philadelphia Stock Exchange's semiconductor sector up 2.8 per cent or 5.96 at 221.48. Advanced Micro Devices climbed 6.7 per cent to $19⅞.

Leading internet shares also soared, with search engine Excite up more than 26 per cent or $7¼ to $35¾ on news that the company would provide services to Dell Computer. Shares of Yahoo! also rallied, gaining 9.5 per cent to a new high of $112⅞.

TORONTO followed Wall Street higher, adding 73.24 at 5,895.90 on the 300 composite index at noon.

Banks, seemingly spurred by hopes of an early cut for US interest rates, made steady progress. Royal Bank of Canda gained C$1.10 to C$65.40 and Bank of Nova Scotia 45 cents to C$25.80.

A C$2.45 rise to C$62.50 for Northern Telecom was one of the better morning performances among industrials. BCE added 45 cents at C$48.10 and Newbridge Networks gained 70 cents to C$34.00. Alcan Aluminium put on 35 cents to C$36.25 and drinks and entertainments leader Seagram hardened 30 cents to C$48.90.

Gold leaders also gained ground. Barrick rose 35 cents to C$27.80 and Placer Dome 30 cents to C$19.10.

São Paulo surges 7% on interest rate hopes

Latin American markets rose strongly, boosted by hopes for lower US interest rates and Wall Street's early gains.

SAO PAULO surged 7.1 per cent as leading stocks shot higher in good volumes. Telebrás receipts jumped 7.6 per cent to R$91.20 and Eletrobrás rose 7.4 per cent to R$26.30.

Sentiment was also supported by the expectation that the Brazilian government was about to unveil an economic support package. At midsession, the Bovespa index was up 467 at 7,027.

MEXICO CITY pushed higher as bond yields lifted off their recent lows and the peso gained ground in foreign exchanges.

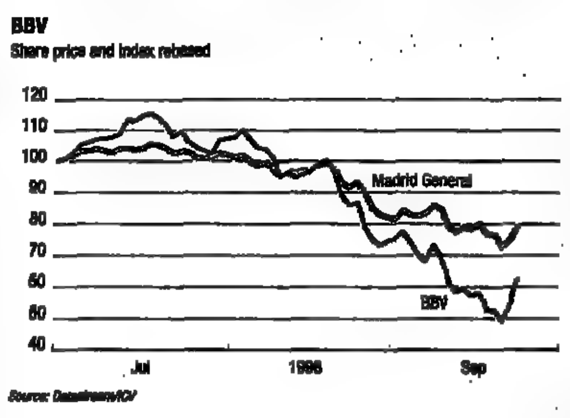
Trading volumes improved and by midsession the IPC index was 179.68 or 5 per cent higher at 3,757.02.

CARACAS took its cue from international oil prices, which rallied above $14 a barrel to extend their gains this month to more than a sixth. By midsession the IBC index had risen 149.20 or 4.8 per cent to 3,269.97.

Madrid rises as woes recede

EUROPE

Receding Latin American concerns lifted **MADRID**, pushing the general index up 36.43 or 5.4 per cent to 711.11.



BBV's announcement that it was maintaining profit forecasts for this year from its Latin American units lifted the gloom over stocks with links to the region. Bank of Spain's decision to leave its key intervention rate unchanged at 4.25 per cent also buoyed sentiment.

BBV jumped Pta205 or 14 per cent to Pta1,650 for a two-day gain of 24 per cent. Among other banks, Santander rose Pta215 or almost 10 per cent to Pta2,355 and Argentaria added Pta150 or 5.2 per cent to Pta3,085.

Telefónica, another leading stock with large investments in Latin America, gained Pta360 or 7 per cent to Pta5,400.

Utilities were firm on reports of industry ministry agreement over the securitisation of a large part of the industry's transitional costs, in exchange for increased competition. Endesa gained Pta220 or 7.2 per cent to Pta3,275 and Iberdrola rose Pta50 to Pta2,410.

PARIS closed within six points of the day's high, thanks to a strong performance by banks and oils. The CAC 40 index finished up 75.80 at 3,423.78 in heavy FFr19bn turnover.

Oils pushed ahead strongly on improving international oil prices and a certain amount of investor switching out of the big utilities. Brent Blend, the North Sea marker price, has recovered by more than a sixth this month. Total rose FFr40 to FFr750 and Elf Aquitaine gained FFr43 at FFr761.

Banks were a particularly robust market, largely on the latest indication of an early reduction in US interest rates.

BNP added FFr22.90 or 6.8 per cent at FFr358.90 and CCF FFr13 at FFr370. Société Générale moved up to FFr770, a gain of FFr32.

The diversified utilities, seen lately as one of the more defensive plays in the French market, lost some of their shine after a sudden uprush of regulatory worries in the UK, where both Vivendi and Suez Lyonnaise des Eaux have extensive operations.

The latter tumbled FFr42 to FFr964 while Vivendi came off FFr21 at FFr1,120. Combined turnover in the two stocks was FFr3.2bn. Alcatel, hit lately by a profits warning, rallied FFr56 or 10.9 per cent to FFr570.

Usinor gave up FFr1.65 at FFr66 after the steel leader warned of less favourable second-half trading.

FRANKFURT ended 3.8 per cent higher as a number of short positions in leading stocks were said to have been closed. The Xetra Dax index ended 173.73 ahead at 4,722.96.

Mannesmann jumped DM12.90 to DM146.95 after it confirmed that 1998 earnings would grow strongly. Munich Re surged DM61.70 to DM743 after an upbeat press conference and SAP gained DM75 at DM929.

All three shares were said to have been partly driven by technical considerations.

Henkel came off DM5.70 to DM130 after Merrill Lynch downgraded from "buy" to "accumulate" and reduced earnings estimates for this year and next.

Media-inspired talk of radical restructuring at Veba helped to lift the diversified utility DM2.51 to DM95.31.

Among motors, Volkswagen added DM5.90 at DM116.45 and BMW jumped DM73.50 to DM1,105.

AMSTERDAM continued to recover, adding 26.71 to 970.60 on the AEX index as investors continued to switch out of the bond market for the second day running.

Aegon was the top performer on a day of strong gains for international stocks.

Aegon advanced Fl 11.50 or 8.2 per cent to Fl 152.10. Philips put on Fl 5.40 to Fl 97.70 and Unilever Fl 4.40 to Fl 121.20.

Elsevier jumped Fl 1.50 or 5.2 per cent to Fl 30.30 in active trade as investors picked up on UK-driven takeover rumours. Volume in the publisher totalled 13.8m shares. Telecoms leader KPN shed Fl 3.40 at Fl 66.20.

ZURICH saw support from a stronger dollar and gains on Wall Street, and the SMI index jumped 213.4 or 3.5 per cent to 6,324.5.

Hopes of lower interest rates lifted banks and insurers, while short covering also provided support. Credit Suisse, which had previously tumbled on its Russian links, rose SFr16.25 or 9 per cent to SFr192.25. UBS rose SFr19 to SFr409. Zurich Allied gained SFr30 to SFr780 and Swiss Re advanced SFr108 to SFr2,990.

Roche gained SFr210 to SFr15,500 and Novartis rose SFr67 to SFr2,257 on the company's announcement yesterday that its Parkinson's treatment has won marketing approval from the European Commission.

SAir Group fell SFr3 to SFr317 on news that it had agreed to acquire 44 per cent of French regional carrier Air Littoral.

MILAN was hit by budget uncertainty, but the Mibtel index managed to close up 279 or 1.5 per cent to 19,193.

Fiat rose L6 to L4,613, strong in spite of a profits warning on Tuesday.

Magneti Marelli, the carmaker's component unit, which posted weak first-half data, lost L14 to L2,298. Lehman Brothers said Fiat was its least favourite car stock.

Eni climbed L274 to L10,323 on alliance speculation and higher oil prices. It released first-half earnings ahead of market expectations and Goldman Sachs stayed positive on the shares.

Written and edited by Jeffrey Brown, Emiko Terazono and Peter Hall

Financials buoy Johannesburg

SOUTH AFRICA

Shares in Johannesburg rose strongly for the second day running, buoyed by another sparkling financial sector performance.

The all share index closed 3.3 per cent higher at 5,068.9. Financials advanced 5.7 per cent to 7,680.6 for a two-day gain of more than 11 per cent.

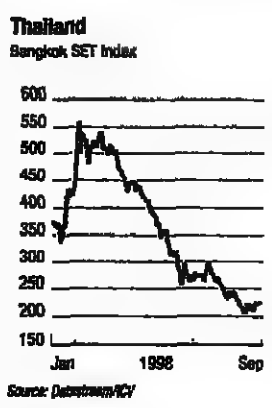
Industrials added 4.3 per cent to 5,773.3.

Golds stayed out of favour, pushed lower by the recovery in the rand. The golds index fell 3.2 per cent to 910.4.

Bullish comments spur Bangkok

ASIA PACIFIC

Shares in **BANGKOK** moved higher for the sixth straight day as investors sought blue chips. Comments by Lehman Brothers that the Thai economy would grow by 2 per cent in 1999 prompted buying, and the SET index closed up 8.14 or 3.7 per cent to 231.28.



The US investment bank said Thailand was likely to be among the first wave of Asian countries to see a recovery thanks to its measures to tackle the economic problems. Positive comments on recovery by the International Monetary Fund also lifted sentiment.

Bank stocks were actively traded, with the sector up 6.4 per cent. The Industrial Corp Finance of Thailand was up Bt0.90 to Bt7.20, Nakornthon Bank fell Bt0.10 to Bt5.90 and Bank of Ayudhya lost Bt0.30 to Bt5.20.

HONG KONG gained 130.88 or 1.8 per cent to 7,504.39 on the Hang Seng index aided by what looked to brokers to be government buying before next week's futures expiry.

Property stocks found ready buyers following Monday's news of an increase in capital at Hong Kong Mortgage Corp. Henderson Land added HK$1.10 at HK$25.50 and Cheung Kong 50 cents at HK$32.40. Elsewhere, market heavyweight HSBC rose HK$2.50 to HK$138.

China stocks were also well dealt. The red-chip index gained 1.2 per cent and H shares rose 4.1 per cent on hopes for a cut in renminbi-denominated interest rates.

KUALA LUMPUR swung back into negative territory following a sovereign debt downgrade and a continued high level of political uncertainty. Rating agency Thomson BankWatch cut sovereign debt to "junk" status.

Trading volumes remained thin with losing shares outpacing gainers by almost four to one. Companies in the Renong group were the most actively traded, notably United Engineers, which fell 8 cents to M$2.15 and Time Engineering, down 3 cents at 88 cents.

SYDNEY moved higher amid takeover enthusiasm and before today's options expiry. The All Ordinaries index rose 39.2 or 1.6 per cent to 2,573.6.

The bid stories centred on insurer FAI, which jumped 19 cents to 71 cents and Metal Manufacturers, 57 cents ahead at A$2.09. Both stocks were heavily traded with takeover offers emerging after the close of trading.

Among leaders, BHP gained 29 cents to A$12.64 and Rio Tinto added 48 cents at A$19.48.

WELLINGTON moved lower as investors fretted about upcoming economic data. The 40 capital index ended off 10.17 at 1,700.22 with NZ Telecom down 2 cents at NZ$7.30 and Brierley Investments 6 cents lower at 38 cents.

TAIPEI was hit by a late sell-off in plastics shares, and the composite index fell 71.82 or 1 per cent to 6,962.17.

Plastics, which had seen speculative buying recently, fell on heavy profit-taking. The sector fell 4.3 per cent, while transport and textile stocks also lost more than 3 per cent. Blue-chip electronics shares were picked up with the sub-index rising 0.4 per cent.

MANILA rebounded over 3 per cent after three days of declines, with the benchmark, which lost 11.5 per cent over those three trading days, closing up 36.39 to 1,159.69. In spite of the rally, sentiment remained cautious before the closure of Philippine Airlines.

Foreign investors were the leading buyers, with Ayala Land up 0.30 pesos to 5.80 pesos and its parent Ayala Corp adding 0.40 pesos to 4.45 pesos.

Manila Electric B shares gained 6.50 pesos to 85 pesos and Philippine Long Distance Telephone rose 30 pesos or almost 4 per cent to 800 pesos.

● Tokyo was closed for a national holiday.

هكذا من الاصل

HARNESSING IT

IN A CHANGING WORLD

Technology shapes a business culture

If the human and structural challenges posed by technology developments are not addressed, organisations risk losing the benefits of IT

Newspaper headlines of high-profile information technology projects going wrong are, unfortunately, becoming commonplace.

The most prominent spring to mind: the new and much-delayed UK air traffic control system, or the much-criticised UK National Health Service computer system that was so recently savaged by a parliamentary report.

The saga of the Swanwick air traffic control centre has been the subject of much debate. The £339m state-of-the-art complex was due to open in 1996, but problems with the computers have meant the date has been put back to 2000.

However, further glitches with the system have led to speculation that it may not be operational until 2003, or that it may have to be scrapped altogether.

Then there are other less well known projects, news of which rarely appears outside the computer industry trade press. For example, £3.1m has already been paid in compensation related to delays on the National Insurance Recording System (Nirs) project.

Government initiatives

Indeed, the very concept of delay and failing to deliver on the promises of new technology has been captured in the spirit of the UK government's Private Finance Initiative contracts, such as Nirs. Here, IT suppliers must typically invest in the chosen project and earn their return on an agreed efficiency improvement that the technology provides. In short, it is the IT companies that shoulder most of the risk.

While delays and problems with public sector projects are often heard about, the commercial world remains largely silent. This is hardly surprising given that no company wants to publicise any difficulties it may be experiencing for fear of losing business or frightening investors.

Yet research shows that the experience of large numbers of companies with their IT investments has been less than rewarding.

Two US reports, one by Gartner and one by Standish, the market research groups, both found that almost three-quarters of IT projects ran over budget and over schedule. The Standish report also found that nearly a third of the projects fail altogether.

A recent survey by OASIG, a UK government-backed study group concerned with IT, was even more damning. It found:

- Between 80 and 90 per cent of IT investments do not meet their performance goals;
- Approximately 80 per cent of systems are delivered late and over budget;
- About 40 per cent of developments fail or are abandoned;
- Less than 40 per cent fully address training and skill requirements;
- Less than 25 per cent properly integrate business and technology objectives; and
- Only between 10 and 20 per cent meet all their success criteria.

The report notes: "This performance gap is rarely caused by the technology itself. The heart of the problem is the lack of attention given to the crucial role played by human and organisational factors in shaping the outcomes of IT developments."

The report finds several reasons for this. First, most investments in IT are technology-led, while the main motive for investing in IT is to cut costs rather than to generate new business. "These biases lead to a management agenda with too limited a focus on technological capabilities and efficiency goals," says the study.

It adds: "This narrow viewpoint means most organisations give inadequate attention to the human and organisational factors which are vital in determining the ultimate effectiveness of new systems."

Second, most companies fail to consider how their work should be organised and jobs designed – although these issues are critical to exploiting technological potential. Thirdly, users do not generally have a substantial or sustained influence on system development, which has big adverse effects on subsequent performance.

The OASIG study also finds that most senior managers do not have a good enough understanding of the links between technical and organisational change. In other words, inept planning and a lack of knowledge of what the technology can achieve leaves managers ignorant of a project's potential.

Finally, IT systems fail, says the report, because extensive "best practice" knowledge about how to deal effectively with human and organisational considerations rarely becomes embedded in practice.

Lack of planning

The report paints a gloomy picture of senior managers combining an ignorance of technology with a lack of foresight and planning. Fred Cahill, a senior IT executive with Unisys, the US-based computer and IT services group, says one of its biggest challenges is not the implementation of a particular project, but the ability to communicate effectively with the client. "If we can understand their business, then we can find the solution," he says.

The evidence from recent reports on IT failures reveals that many managers appear confused about the complexity of the situation they are faced with when investing in new technology. "These complexities," notes the OASIG study, "are made more difficult to resolve when organisations are faced with urgent competitive and economic pressures."

In addition, management must confront the increasing levels of fragmentation within the organisation – brought about by technology's new cultures, agendas, interests and jargon. It is vital, therefore, that integrating this new diversity becomes a prime objective of any IT project.

In a recent book, "Unleashing the Killer App", authors Larry Downes and Chunka Mai argue that technological change is coming from the bottom up in organisations, and that senior management needs to recognise this and understand this process. Rather than ask how the business can be helped by technology, managers should find out how technology can shape the business, they argue.

Neither should managers focus on cost-cutting as the prime reason for introducing new technology. Not only will this demotivate staff who have escaped any job culling, it is also likely to set the tone for the way the system is used – that is, not to create new business but simply to rein in costs.

This opportunity cost will also surrender the IT system to the technologists, creating further alienation within an organisation.

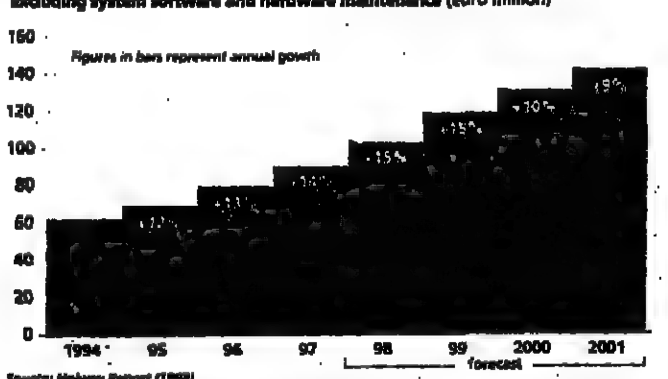
The OASIG report says: "It is rare to find an organisation which takes careful and systematic approach to evaluating the performance and impact of IT developments. And senior managers often define investment objectives in the vaguest terms."

It concludes with a series of recommendations on "how to manage IT successfully". Senior managers must:

- Take a leading role in developing an integrated strategic approach to change that encompasses both business and technical goals;
- Treat technical, organisational and people dimensions of change as being inextricably linked factors requiring joint management;
- Set clear objectives for human and organisational aspects of IT developments, including opportunities for learning and continuous innovation;
- Regularly evaluate progress;
- Involve users in all stages of system development, implementation and use;
- Give project managers responsibility for making sure that human and organisational factors are taken into account in practice, using detailed implementation and benefits plans;
- Actively consider how work is organised and jobs are designed, as these will almost certainly need to be changed to improve effectiveness;
- Educate and train everyone affected by the technical and organisational changes to enable them to gain maximum benefits from the new system; and
- Commit sufficient resources to meet all these requirements.

'Management must confront the increasing levels of fragmentation within an organisation'

European software and computing services market
Excluding system software and hardware maintenance (euro million)



Source: Holway Report (1998)

UNISYS & THE PUBLIC SECTOR

Progress on the slow road to recognition

IT executives and government officials are at last discovering systems that are ideally suited to revolutionising the delivery of public services

The public sector has traditionally had a reputation for being slow to embrace change.

With purse strings being tightened in town halls across Europe, financial accountability under scrutiny and with responsibilities to deliver vital services, it is not difficult to understand why this reluctance has been extended to technology, where complexity and expense are prominent.

In the UK, confidence has not been helped by the controversy surrounding a number of Private Finance Initiative projects, which have run over budget and past their deadlines.

There have been other high-profile IT flops. Just last month, a UK parliamentary committee attacked the NHS Executive for failing to learn from previous mistakes on large computer projects.

The committee revealed that the Read Codes project, intended to translate medical terms into computer usable form, had cost £32m over eight years – yet only a handful of hospitals were using the system and full implementation would cost much more.

Yet many in the public sector, and in the IT industry, have recognised that developments in technology are ideally suited to revolutionising the delivery of public services. This growing belief is beginning to translate into meaningful change as more and more public organisations look to implement a proper IT strategy.

"The public sector is looking at the commercial market and realising that technology has the ability to improve efficiencies in the delivery of their services and save money in the process," says Fred Cahill, Unisys director for the public sector.

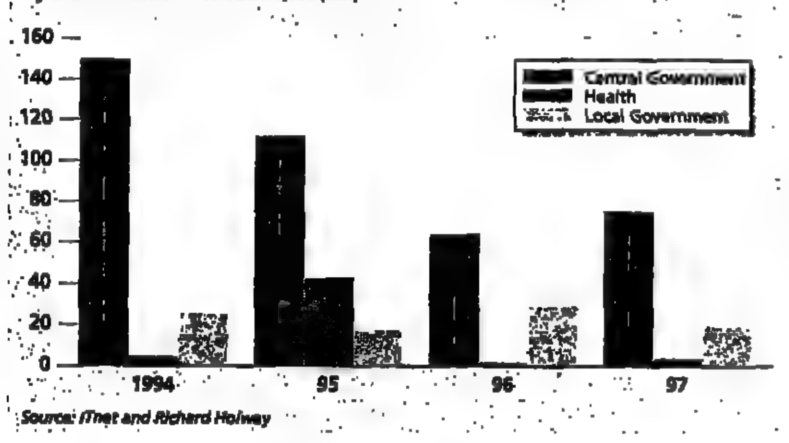
Outsourcing

Outsourcing has become a key weapon in the IT industry's armoury. By handing over responsibility for the implementation and running of a particular IT service, the public sector gains on the prohibitive cost of training its staff and maintaining the technology.

Statistics are difficult to analyse in this regard because of the very high value of some outsourced contracts in particular years. However, the latest figures from Richard Holway Ltd, the leading independent IT consultancy, do throw some light on the upward trend.

Public sector outsourcing contracts

By annual value of contracts let (£m)



Source: ITnet and Richard Holway

Last year, UK public sector outsourcing contracts rose 18 per cent to £98m. Central government IT orders increased 17 per cent to £75m, which comprised of 17 contracts – 11 new and six renewals.

Holway notes that four of the six renewals involved a change of supplier – against an average of one in eight in the private sector. In the health sector, all the renewals changed their supplier.

After 60 per cent growth in 1996, local government contracts slid by a third to £19m last year. Holway notes that "although local authorities now see outsourcing as an accepted route, their focus has been on business process outsourcing."

Increasing acceptance by the public sector of the need to invest in new technology has to be offset by the often laborious tender process IT suppliers must go through.

The lengthy – and costly – process is sometimes compounded by the contract details being too specific on the types of hardware and software required. While this is understandable in the context of cost control, rapid advances in technology often mean the specifications are not the best solution.

"We try and influence the situation as best we can," says Mr Cahill. "We try and encourage them to discuss their business objectives with us so that we can understand their needs and help address them."

Unisys was involved in the first PFI contract awarded by a local authority when it signed an agreement with Harrow Council to computerise its revenues and benefits section.

The five-year deal will see Unisys invest in the new system and recoup its funding over the life of the project. "What makes this a first is the fact that Harrow Council will pay nothing up front and will only start paying for the service once savings have been demonstrated," says Mike Spanner, Unisys director of business services.

Under the contract, Unisys and Harrow are reviewing all aspects of the way services are delivered and how technology can be used to streamline the process.

A Document Image Processing and workflow system will allow the council to automatically feed documents, such as business rates and council tax bills, into the council computer. The new system will be delivered on a Windows NT platform using the Eastman Software product set. It will be integrated with the existing core revenues and benefits systems to provide a single user desktop.

Carol Clutter, head of financial and exchequer services at Harrow, says: "The new system will lead to greater efficiency and a better service because it will streamline everything we do."

Managed network services

It has been a similar story at Essex County Council, which last year signed a £3m deal with Unisys for managed network services.

Under the contract, Unisys will install a new Cisco-based router network at the council's headquarters and connect to some 200 remote sites via leased BT lines. Departments, such as libraries, can then migrate to the network as they upgrade their systems, supported by Unisys' network services.

"Using Unisys managed networking services will give us the network platform and service levels to offer improved services to the ratepayer," says Len Graves, Essex CC IT and financial services officer.

"We'll be buying network connectivity like we buy electricity, and we're more than confident there will always be enough power available. Also, moving from a capital IT cost to revenue pricing is far easier on our overall budget."

Unisys was also involved in the development of a new network for Suffolk County Council. The computer services group moved the social services department from a mainframe-based system to an outsourced client/server network. The result has been to enable staff in the office and in the field immediate access to customer records and services.

"We wanted to go it alone," says Joan Miller, Suffolk's head of information management. "Running a mainframe is very expensive and added to that we were connected to the corporate county council system. We wanted to break away from centralised management, but didn't want to go down the mainframe path.

"We needed a cheaper system, but one powerful enough to provide our workers out in the field with up-to-date information from a central database at the push of a button."

Unisys upgraded the local area network and installed Bay Networks hubs and Cisco routers for fast access out on to the wide area network. An Oracle-based database from OLM running on three Unix servers replaced the old mainframe.

Registers of Scotland turned to Unisys when it wanted to improve its computer systems. The agency is responsible for the compilation and maintenance of public records and registers relating to land and property matters in Scotland.

The aim of the multi-faceted project was, in the words of Alan Ramage, chief executive and keeper of the Registers of Scotland, "to make public access to our information as simple as possible". The £2.5m 'Direct Access' project, which is due for completion this year, will improve access to public records and reduce the cost of conveyancing in Scotland.

The ability to gain direct access to the agency's records is the culmination of significant investment by the agency in moving from paper-based information to full-scale computerisation of its records.

Under the solution provided by Unisys, information held in the individual production systems database was integrated. These diverse data sets were then transferred into an Infomix-based data warehouse, with additional indexing and restructuring facilities also provided.

A key part of the transition to the new system is the commitment of the computer services group to play a full and active role in supporting the agency after the project is completed. Indeed, part of the contract payment is to be made in the development and usage of associated services run from 'Direct Acess'.

Web browser technology is employed so that clients can directly access the information held in the data warehouse, performing enquiries on a wide range of property and land-based matters. The user interface ensures maximum flexibility by using Internet and Geographic Information System technologies.

One benefit of the new system is that it allows users to access the registers from any location, eliminating the need to visit the Edinburgh office, or pay someone to carry out the search.

By providing easier, quicker and more flexible access to an integrated data set, the agency believes that awareness and innovative use of the information will increase and the costs of conveyancing in Scotland will be reduced.

Fred Cahill, head of Unisys's public sector division, says: "Unisys is currently supporting a number of key projects such as this, to provide direct access to information in the public sector through intranet and internet technologies.

"Direct access services such as the one being implemented by the Registers of Scotland can only help governments and their agencies to provide better and more efficient services to the public."

Public sector outsourcing: local authorities are looking to streamline services such as benefits by computerisation

'Moving from a capital IT cost to revenue pricing is far easier on our overall budget'

UNISYS AT WORK

CITY OF ROME / AUSTRIAN MINISTRY OF FOREIGN AFFAIRS / UK MINISTRY OF DEFENCE

Net gains for voters in the Italian capital

Voters in the city of Rome, Italy's capital city, are now able to participate in elections via the internet after the implementation of a new IT strategy by the municipal authority.

Unisys Italia, the Italian subsidiary of the integrated computer group, was selected by Rome City Council for the hardware and software solutions that manage the data from the local registry and electoral services.

Once set up, the process for voters is simple. The council's internet home page – www.commune.roma.it – contains a voting icon, which gives visitors access to on-line developments during elections, from the numbers of people voting to the votes given to each candidate.

Unisys employed its "CoolICE" software in order to achieve the important direct connection between the local administration and the citizen.

The company describes the software as "a highly innovative and flexible tool that allows users to create and update Web pages in a dynamic way, without dedicated personnel to update static information on the site. Moreover, no other specific Web page creation tools are needed."

One of the key advantages of CoolICE as far as the Rome council project was concerned was its ability to deliver extensive security capabilities, thus avoiding the risk of manipulation of the election results.

Security was also a prominent factor in the decision by the Austrian Ministry of Foreign Affairs to choose a Unisys solution for the upgrading of its Vienna office system.

Up until last year, the ministry's old mainframe system was being used mostly for the processing of personnel applications. The ministry decided to opt for a client/server system.

Unisys installed 650 Aquanta DL desktop Ocs and 12 Aquanta QR/6 PC servers running a Microsoft Windows NT front-end. Gerhard Milletich, the ministry's electronic data processing manager, said the attraction of a solution based on Windows NT was that it provided a consistent user interface across applications such as office automation, workflow, e-mail and digital electronic filing.

Another advantage is the system's flexibility. Mr Milletich says this is important because the ministry may have to implement minor customisation after installation in order to achieve the goal of full electronic workflow and imaging.

"We will be learning from the system itself," says Mr Milletich. "We will want to add individual data processing facilities, specific applications like budgeting and personnel."

Speed of access will be improved by the new system. Previously, to answer an internal enquiry, files had to be brought to the relevant department by hand and it could take days to obtain an answer. "The major problem has been transporting the paper," says Mr Milletich. The new system allows same-day response.

Similar requirements of speed, efficiency, cost-effectiveness and security were high on the agenda of the UK Ministry of Defence when it was planning to revamp its IT systems.

A £28m contract was awarded to Unisys to provide common networked IT applications to approximately 4,400 users in a restructured Procurement Executive in a new office complex in Bristol.

The Unisys solution was based on an integrated suite of commercially available package software. Project management, finance and contract management tools are integrated into a corporate solution, with a Management Information System providing timely summary information.

"This tool set," says the computer group, "provides the ease of use to work in today's business environment and the flexibility to grow." The system uses networked PCs supported by work group and corporate servers. Within the project, Unisys had to integrate with the existing infrastructure and make use of existing networking facilities.

Through structured end-user workshops, Unisys refined the MoD's business requirement, which was then used to evaluate market leading packages, and selection of the "best fit" solution.

The project also included an intensive training element. The company has developed training materials that are business process focused. Roll-out, training and adoption of the system had to occur in a short time frame. With more than 4,000 users, the most practical medium was direct contact through computer-based tutorials on their workstations.

Unisys also developed a management programme to help the client navigate its way through the process of change.

The city of Rome: voters can participate in elections via the internet

UNISYS

UNISYS & CALL CENTRES

A clear line to new business

Call centres have become a phenomenon of the 1990s, as selling an ever growing list of commodities – from life assurance to plastic windows – is done over the telephone.

In the UK, there were 162,000 agents at 4,000 call centres handling 25m domestic and international calls a week in 1996. Datamonitor, the market research group, forecasts that the number of people employed will rise to almost half a million by the millennium. Across Europe, it expects the figure to reach 1.2m.

Among those adding its name to the list of operators coming into the market is Excell Global Services. It recently won a contract with a UK-based credit card protection company, marking a breakthrough for the the US call centre services group in the UK commercial market.

However, the order was a challenging one. The customer needed a call centre set up in order to contact new card holders to offer card protection insurance, but needed the work done very quickly.

A complete call centre had to be set up before the work could commence, on both outbound and inbound telephone campaigns. The former were to contact credit and retail card users to sell card protection insurance. The inbound campaigns were for freephone numbers to be routed to the call centre.

Excell appointed Unisys to supply the call centre system to its temporary premises in Dunfermline, Scotland. The computer services group had to supply the applications software and the Windows 95 operating system on to the existing PCs.

An NT server was enabled with software and the necessary databases built. Detailed script writing was also undertaken, but because the users were unskilled in the use of the product at the time, some of the product functionality had to be built into the programme using Visual Basic language.

Information requests

The system also had to be able to capture and transmit data about sales and information requests to Excell's client.

This part of the project was completed in under a week. Meanwhile, Excell's permanent office, with a capacity for 60 agents, was under construction at Glenrothes. Unisys had to then duplicate the Dunfermline operation there.

Unisys used "Versatility", a third party software product, to handle telesales, telemarketing and reporting systems. No single company was the prime contractor for the part of the project.

The equipment and the Automated Call Distribution switch, which allows incoming calls to be sent out in orderly queues to waiting operators, were bought from other companies.

Unisys provided the systems integration skills to bring it all together, using a Computer Telephony Integration application, CT Connect, to link the switch to the PCs. In order to start the outbound campaign, the card holders' information had to be electronically loaded into the Versatility database.

Campaign results

The results from the campaigns had to then be supplied back to Excell's client in electronic form, which required bespoke programming from the computer group.

Jon Delnegro, marketing director of Excell in the US, says: "The value added which Unisys provided, lending Excell equipment, proved that Unisys was a willing partner on the project.

"Most of all, no-one in Glenrothes knew of Versatility nor the environment which was being installed, and Unisys provided the training and support to novices, which is the most difficult situation to be in as a service provider. Bearing all this in mind, it is fantastic that Excell went into service on schedule!"

Unisys is also providing on-going technical support to the call centre. The group can provide remote back-up to the centre's PCs. This system has the added benefit of enabling the users to be trained remotely as well.

Helen Bradshaw, Excell's director of operations in Scotland, says that the professionalism, expertise and flexibility of Unisys were key to the success of the project.

With this being the company's first call centre contract in the UK, its success was vital to it winning more business. This has now been achieved and Excell has won repeat business in the UK.

Call centres: selling a growing list of commodities over the phone

UNISYS & LAW ENFORCEMENT SYSTEMS

Streamlining the constabularies

The need to find a system that will improve performance and speed up responses is as pressing for the police as for any other organisation

Technology is changing the way every industry works, and the business of law enforcement is no different. Not only are the police keen to improve their performance, but they must also respond to developments in crime, such as computer fraud, which technology has made possible.

During the 1980s, the police introduced the first national computer system – Holmes – in an attempt to unify the ad hoc systems which had been developed by various constabularies in the UK.

There had been some glaring examples in which the police's lack of computing power and efficient systems had let them down badly. The Yorkshire Ripper inquiry, for example, had to wade through some 40 tonnes of paper, containing everything from hundreds of witness statements, to forensic evidence.

In addition, Peter Sutcliffe, who was eventually found guilty of multiple murders, was interviewed seven times by police during the course of the on-going investigation.

Holmes – Home Office Large Major Enquiry System – was designed to produce a big improvement in the police's ability to organise large-scale and complex enquiries.

However, the seeds were then sown of problems for the future. Four versions of Holmes were developed using proprietary hardware from Unisys, Bull, Cap Gemini and McDonnell Douglas Information Systems.

The Holmes system used a transaction-based, procedural approach to screen navigation. The screen content was completely text orientated and relied heavily on the knowledge and experience of the user, who required a substantial amount of initial training and also underwent refresher training on a regular basis.

In effect, Holmes was designed primarily to computerise the police's manual procedures and raise the productivity of the incident room. Specialist software was added at various times, but the problems of melding four different platforms were becoming increasingly apparent.

In particular, the four systems' incompatibilities made it difficult to link different systems together in order to compare incident databases in cross-border crimes.

Don Dovaston, deputy chief constable of Derbyshire, said in a recent Financial Times interview that the police "have to get the best possible results at the lowest cost. We can no longer afford to have 120 detectives on a case".

He added: "Without technology, we will always fail abysmally."

Holmes 2

In 1996, the police authorities and the Home Office decided to implement a new IT strategy and Holmes 2 was born. Aware of the problems that had affected its predecessor, the contract for the new system was awarded to just one IT company – Unisys. The contract was won by the group after a two-year tender battle.

Holmes 2 is a single software implementation, portable across different hardware platforms. It also provides compatibility and consistency between police forces once they have adopted it. The new system uses Microsoft Windows graphical interface to improve screen navigation and maximum use of graphics-based tools is made to improve the clarity of the information presented.

All software components are fully integrated to create a complete investigation system. Unisys is using advanced intuitive software from Cambridge Neurodynamics for free-text retrieval and database comparison.

Fred Cahill, head of Unisys's public sector division, says there are several big advantages that Holmes 2 has over its predecessor. These include the fact that the system is easy to use, thus reducing training time and increasing user efficiency.

Its enhanced computing power allows for more effective research and analysis of the database. There is also an increase in accuracy and speed of data input. In addition, Holmes 2 provides an operationally acceptable database linking facility, and easy access to information on PNC and other Holmes 2 systems.

"We have the most advanced solutions," says Mr Cahill. "The web-based technology, with search engine applicability, together with our strong track record in law enforcement systems, means we can deliver a user-friendly system to the customer's requirements."

Mr Cahill says that Holmes 2 is currently being tested by the Home Office and three forces. He expects the roll-out to begin early next year.

The Metropolitan Police, the UK's biggest constabulary, has been using Unisys for many years to develop its Command and Control system (CCS).

The Met, which has 28,000 officers, covers the whole of the Greater London area, containing some 9m people. The CCS was first automated in 1984 to deal with the estimated 1m emergency calls received by the Met every year. That figure has trebled in recent years, thus necessitating the need for constant upgrading.

The system is based in New Scotland Yard in central London and has links to 70 smaller communications rooms in divisional police stations spread across the 720 square miles that the Met covers. This creates the Met's emergency response system, which at its hub is a Unisys central computer system holding the vast amount of data that makes the system work effectively.

The solution comprises four main applications:

- The Computer Aided Despatch system, designed to handle police emergency calls. It includes the ability to record how an incident is handled, where the call is made from, and where the nearest police resources are located.
- METOPS is a turnkey project application which provides a sophisticated resource management facility that is used for controlling major events in the capital.
- Message Switching handles the requirement for day-to-day administrative communications. This passes non-urgent messages between New Scotland Yard, police stations and the courts.
- PNC Interface provides the interface between the Met and the Police National Computer allowing the Met to access and update data held there.

Technical rapport

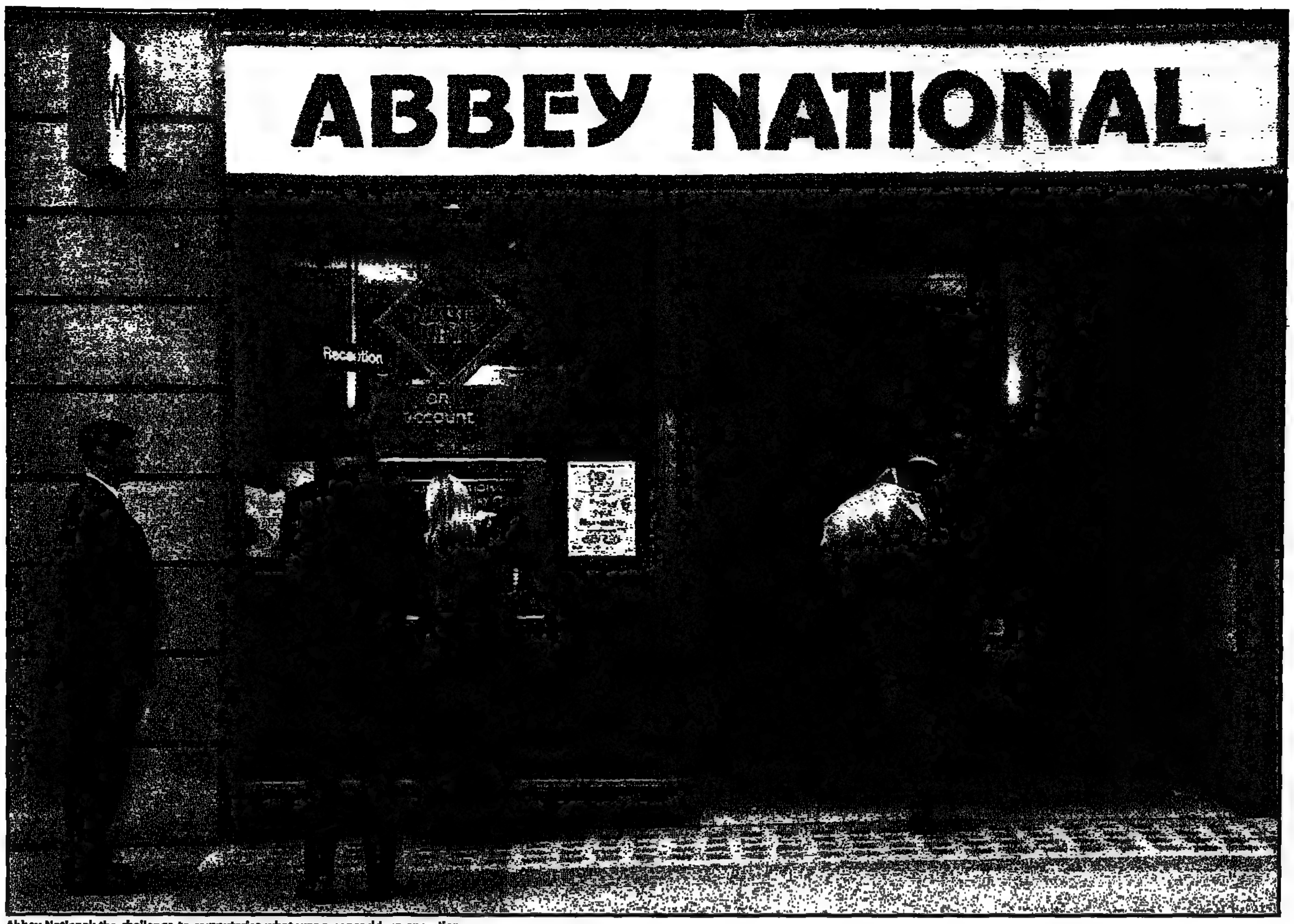
Because the relationship between the Met and Unisys goes back to the late 1970s, a close rapport has developed between the two organisations in developing the Met's IT systems. The relationship was formalised in 1986 when Unisys was retained by the Met to provide technical specialists in both system software and application software to ensure that the constantly evolving requirements of the end-users are satisfied.

In order to meet the ever increasing transaction load and the more stringent requirements for availability and stability, Unisys has updated almost all hardware and software components of the Met's systems. The hardware is now based on Unisys Enterprise Server systems.

The Citizens Charter means that the police must keep more performance measurement data. A Computer Aided Despatch Management Information System was designed to process management reports from the main CAD application. These reports provide the information to senior officers and help to measure the effectiveness of the police emergency service in London.

Technology is changing the way every industry works: law enforcement is no different

I wish someone would dig a little deeper for the best solutions to my business problems. I wish I could find people who really know how to make all this technology stuff work together. I wish they could see beyond the desktops to the whole organisation. I wish they would work as hard to make me happy after the sale as they do before. I wish they were the type to roll up their sleeves and stick with a problem until it's solved. I wish I could find people who give more than the minimum effort required. I wish I could work with people who are as passionate about their business as I am about mine.



Abbey National: the challenge to computerise what was a paper-driven operation

UNISYS & FINANCIAL SERVICES

Institutions focus attention on spending

As systems become more deeply embedded in the strategies of banks and other organisations, IT expenditure is reaching ever higher levels

No other sector is undergoing such rapid technological changes as the financial services sector.

The growth of the internet, electronic commerce and on-line banking has radically altered the way business is conducted.

At the same time, the efficiency of organisations and their ability to service their customers is being revolutionised by faster and more powerful computers, sophisticated systems integration and rapid advances in telecommunications services.

It is small wonder therefore that a company's spending decisions on technology have become central to its strategy for not only success, but quite simply survival.

In a recent report on the financial services sector, Datamonitor, the market research group, described the quandary thus: "As technology becomes increasingly embedded in the strategies of retail banks and other financial organisations, IT decisions are shifting from an information level to an executive level – and spending has rocketed in recent years."

It adds: "Beset by the desire to achieve scale, driven by the fear of globalisation and burdened by the headache of systems complexity, banks are reassessing their strategies to focus on brand and client value."

Datamonitor believes there is a central dilemma facing financial services groups in addressing the situation. Firstly, technology has helped banks to become vastly more efficient, improve their distribution channels and pursue more profitable opportunities.

However, it has also brought with it difficulties as banks attempt to manage the complexities of their new situations, including issues such as the year 2000 computer problem and the introduction of the single European currency.

Mergers and acquisitions

Going hand-in-hand with technological developments is a wave of mergers and acquisitions, some in response to the changing business landscape, others more opportunistic. Last year, for example, 40 per cent of the world's 20 biggest mergers involved banks, including two of the top three. That too has now been topped by the $76bn merger between Citicorp and Travelers.

Analysts believe the number of banks in Europe will fall by 30 per cent over the next 10 years as the M&A wave continues. They believe much of it will be defensive as new technology removes barriers to entry into the financial services market, inviting in groups with strong distribution skills and/or brands, such as retailers.

In the US, General Motors and AT&T have suddenly become big players in the credit card market, while in the UK, it has been the big retail groups – Marks & Spencer, Tesco and Virgin – that have made all the running. Consolidation is creating bigger organisations which are relying on technology to reduce costs and win new business. Citibank, for example, has outlined plans to increase the number of its customers 10-fold to one billion by 2010 without opening a single branch office.

New customers will be recruited online. And Citibank and its rivals will use all that technology can provide them with – be it data mining to capture and retain the best customers, or sales of a vast array of financial services, from insurance to mortgages – in order to succeed.

The implications of these changes are enormous and put additional pressure on the expenditure plans of today's financial organisations.

Certainly this was uppermost in the minds of executives at Abbey National, the UK banking group, when it was confronted with a series of technological challenges as it prepared itself for the new millennium.

Among these was the decision to introduce a new IT system into the group's Business Communications Department. It was a move of the utmost importance for the bank as the department was responsible for the compilation and distribution of product and policy information throughout the company's branches.

Indeed, following the 1996 takeover of N&P, Abbey became Britain's fifth biggest bank with more than 1,000 branches.

The challenge was to computerise what was a paper-driven operation, whereby all the bank's financial product, services and systems information was processed and delivered manually. This was both expensive and inefficient.

For example, the production cycle of a mortgages manual is a long, slow and resource-intensive process. Print and production is expensive, as is distribution and redistribution. In fact, these latter expenses were costing the bank £3,000 a month, and following the N&P acquisition, it needed to spend some £500,000 alone in stocking the extra 200 branches with Abbey manuals.

It was a situation in need of a comprehensive solution. The bank needed to be able to send between 1Mb and 20Mb of information to different branches at different times. At the same time, all the branches needed to remain operational during downloads to avoid disruption during office hours. It needed to be fast, flexible and user friendly.

Abbey engaged Unisys, who identified two main solutions to the provision of information: via satellite or the internet. The latter was rejected on grounds of security and expense. There were also concerns over management of information given that the internet is essentially a two-way communications medium.

Having opted to use a satellite-based system, Unisys spent nine months installing Alphameric receiving equipment, Olivetti cards and Interleaf software at each of the bank's branches.

Peter Greenfield, the Business Communications Department manager, says: "The beauty of satellite is that it is one-way communication and has full redundancy.

"The time it saves to ship information into a branch via satellite is also a major factor. It takes just an hour and a half to download an entire Abbey National library – about 40 manuals or a million pages of text."

The bank reckons the £3m cost of the new system will be paid back over four years. For example, it estimates it will save some 100m sheets of paper in that time. "There will also be saving on auditing costs, while efficiency savings will be result," says Mr Greenfield.

"All information must be supportive. If it isn't, you are doing it wrong. Using paper was the best way to ensure that it didn't work. Growth isn't an issue in satellite.

"We now have a service that everyone can see and benefit from which means our staff are more productive and ultimately, better at selling our products."

Reducing paperwork

Unisys was also chosen by Girobank when the Alliance & Leicester subsidiary went in search of a way of reducing the mountain of paperwork generated by its cheque and document handling processes. Unlike other banks, Girobank's business is conducted via the 20,000 Post Office branches throughout the UK.

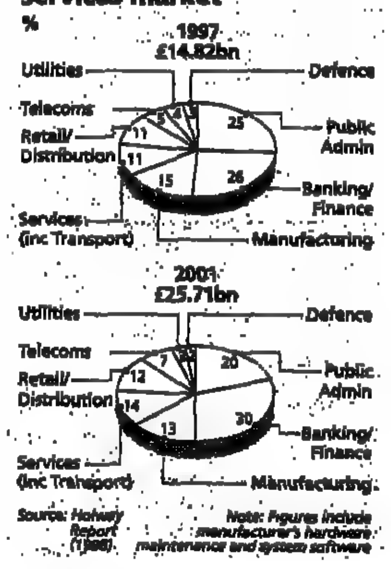
Previously, Girobank documents and cheques arriving on a nightly basis from the Post Offices would go through five sorting processes before being read. Introducing fast data-processing hardware and Unisys workstations and supporting software revolutionised the process. Sean Clarke, operations director at Girobank, describes the system as "the best quality of any large-scale vendor technology package supplied over recent years".

The project is anticipated to run for four years and Girobank is already benefiting from it. Andy Marshall, the bank's head of operations at the processing centre says the new solution is the most efficient cheque-processing system in the UK.

Throughput is much higher, documents make fewer physical movements around the centre and the error rate has been dramatically reduced as a result.

UK software and computing services market

%



Source: Holway Report (1998)

Note: Figures include manufacturer's hardware maintenance and system software

UNISYS AT WORK

STAFFORDSHIRE BUILDING SOCIETY

Extensive network is the best solution

With 300,000 members, 50 branches and £1.2bn worth of assets, Staffordshire Building Society is the UK's 15th biggest building society.

Three years ago, the organisation appointed Unisys to lead an ambitious £8m IT investment to update the group's computer systems.

Staffordshire's existing branch IT system consisted of cashiering software running on a proprietary hardware platform. A direct link to the central ICL mainframe allowed cashiers to access individual account details in real time, although counter transactions were not updated until the close of business.

There was no centralised customer database and no means of delivering standard productivity applications to the branch staff.

The society decided to choose a PC-based network involving more than 200 stations at its 50 branches. This would allow staff to use spreadsheets and word processors on the same system as the cashiering software. It would also provide an open, scalable platform with inter-branch communications and an upgrade path for the future.

The new branch system consists of one server in each branch running Windows NT software. An average of three PC-based counter systems running Windows 95 are linked to this server, as well as passbook printers and laser printers. All the systems run Staffordshire's own bespoke cashiering software, as well as providing a link to the mainframe computer.

Unisys was appointed to supply the hardware and provide consultancy on NT, Microsoft Systems Management Server and the Microsoft Exchange mail programme. They also managed the systems integration and roll-out and provided engineering support after the installation.

"We needed equipment that could do the job, and we needed scalability," says Bill Kinsey, technical support supervisor for Staffordshire.

"At this stage we were putting in a branch system, but some way down the line we knew we would be adding other capabilities and we didn't want to go down a blind alley. Unisys offered both scalability and equipment that would perform to our requirements."

Simon Wheway, the society's computer services manager, agrees: "What I found particularly good about Unisys was their ability to source and integrate the equipment from different suppliers and deliver it. They did a very professional job."

Effective project management was crucial to the roll-out, where Unisys had difficult deadlines – typically Wednesday or Saturday afternoon – in which to install a working system. With 50 branches to cover at a rate of three per week, there was no room for mistakes.

The roll-out was completed 18 months ago, on time and to budget. Staffordshire and Unisys signed a three-year service contract, which covers all the organisation's IT requirements. This includes regular meetings to discuss issues and concerns.

Mr Wheway says: "We have found that a procedure only ever goes wrong once. If that happens, Unisys will ensure that it never goes wrong again."

Staffordshire has been quick to take advantage of the scalability in the original Unisys specification. The new branch systems were the first phase of Staffordshire's IT replacement programme. The central core systems are being changed in phase two, providing a relational customer database running under Oracle on Unix that can be accessed by all the branches.

"We can communicate with colleagues in different areas better through the e-mail system," says Mr Wheway. "We are able to deliver information to the branches more efficiently and effectively – and they can access central documentation. The branches are a lot more efficient."

He adds: "We are moving to using process flow chart formats rather than written departmental procedures – upgrading our way of thinking as well as our IT systems. The branch system we chose has enabled us to deliver things like ABC Flowcharter. We couldn't have done that with the old systems.

"Unisys have a lot of strengths. They have an in-depth understanding of NT. Their project management is excellent and you always know what is happening. Their equipment is reliable. Our experience with Unisys has been extremely successful and I'm very confident about continuing to work with them."

YEAR 2000

Abbey National fights back against the bug

Of all the technology challenges confronting businesses today, none is more pertinent than that thrown up by the so-called "Millennium bug".

Some older computers will be unable to recognise the change of date when the year 2000 arrives and are likely to malfunction. It is a huge problem and one which is costing billions of pounds to tackle across Europe.

Some analysts have suggested the scale of the problem could be such as to tip the world into recession. And a recent leaked report from the Group of Eight industrialised countries revealed big fears over the readiness of the world nuclear industry, particularly in non-western countries.

In the corporate world, Abbey National is unlikely to have any fears over a financial meltdown. The UK company has undertaken a complete year 2000 solution, courtesy of Unisys, the US-based computer services and products group.

A purpose-built solutions centre has been established by Unisys at Milton Keynes. Some 330 staff, working in tightly-focused cells, have been involved in the Abbey contract checking 14m lines of code written in 16 different languages.

Tony Harrington, marketing director of Unisys financial services, says: "Our software factory approach is proving itself to be the most time and cost efficient means of solving the millennium problem. Abbey National is safe in the knowledge that our rigorous testing will help ensure business continuity come 1 January, 2000."

With the Abbey contract recently completed, capacity has been relieved at the 2000 factory. However, George Cox, chairman of Unisys Ltd, believes even companies and organisations that think they are Millennium-compliant should not be complacent.

"We would like to throw out a challenge to those groups which believe they are safe – have yourself tested by Unisys. Be sure, not sorry."

UNISYS AT WORK

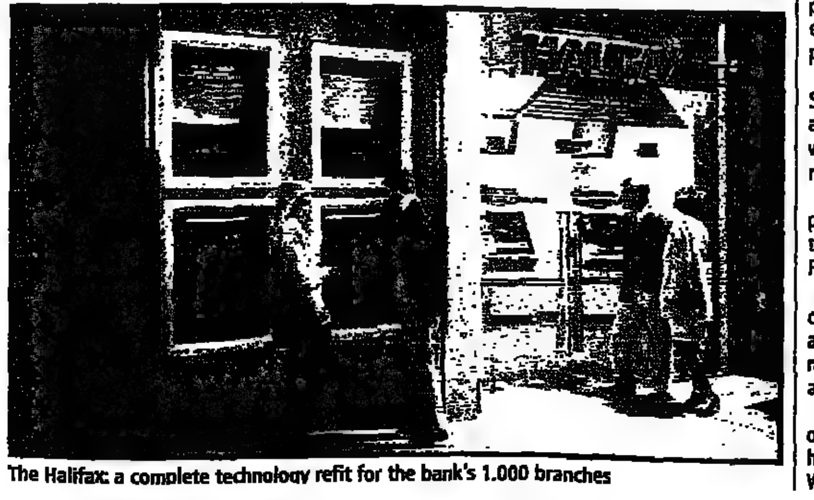
THE HALIFAX

Satisfying a client with tough demands

As the UK's biggest provider of mortgages, the Halifax has high demands of the systems which underpin its continuing success.

The group, which converted from a building society to public listed company last year, manages assets of more than £120bn, and services 2.5m mortgages and more than 14m retail savings accounts. To support such a huge operation, it has more than 1,000 branches, 500 estate agents and 27,000 employees.

The company has built a strong reputation for customer service. It has also been seen as innovative in the financial products it offers, and aggressive when it comes to expansion opportunities.



The Halifax: a complete technology refit for the bank's 1,000 branches

Unisys was responsible for an important piece of development work with the Halifax when it recently completed a complete technology refit in the bank's 1,000 branches across the country.

Some 14,000 PCs and servers, together with 7,000 printers were procured, configured and installed as part of the contract.

Brian Roddick, who headed the project for the Halifax, says the ability of Unisys to work both independently and in consultation was a key factor in the group winning the contract – and delivering on it.

"They were always prepared to try and match up to our requirements, but they also provided a lot of expertise and help in terms of ensuring that all the constituent parts of the project came together."

The branch roll-out took place between September 1996 and May 1997. Unisys advised a start-up rate of installation of about 20 per week, with an increase gradually to the target rate of between 36 and 40.

"Unisys recommended the ramp-up philosophy because they felt it would allow us to ensure our processes worked," says Mr Roddick. "And they were right."

As the roll-out gained momentum, contingency weeks were set aside to allow for any aborted installations. However, success rates were very high from the start and rose to almost 100 per cent.

"Unisys performed admirably during the roll-out," says Mr Roddick. "We set out to achieve a high success rate, and we missed very few sites. We certainly didn't miss any because of Unisys."

UNISYS

ADVERTISEMENT

Aeroflot: the Russian airline is trying to shed its down-market image and target more affluent flyers by investing in the technology for a loyalty scheme

UNISYS & AIRLINE LOYALTY SYSTEMS

Airline operators start listening to the market

As loyalty schemes become more sophisticated, new technology is being used to tap into the buying patterns of customers

Competitive retail environments do not come much tougher than that of the airline industry.

In the battle to win and retain customers, loyalty schemes are becoming more widespread and sophisticated. They are also becoming more valuable as airlines begin to tap their potential for analysing the huge amount of data they have about their customers.

Interest in the technology that makes this and other benefits possible is therefore growing rapidly. And it is not just those airlines anxious to target the lucrative business travel market which are launching schemes. Airlines serving the more mainstream travel market are also keen to get on board.

For example, Unisys, the computer solutions group, has recently won a $1.1m contract to supply its Customer Loyalty System to Aeroflot, the Russian airline.

More affluent flyers

The order follows on from the decision last year by the airline to try and shed its down-market image and to target more affluent flyers. Since then, it has ordered more modern aircraft and taken steps to improve its customer service.

The CLS should enable the group to enhance revenue potential by delivering customised services and rewards targeted at narrow customer segments rather than broad mass markets. The offerings are designed to give real value because they are based on customers' actual preferences, buying patterns and travel experiences.

"With the Unisys CLS, we can establish high-quality programmes that deliver consistently excellent services to our customers," says Nikolay Lebedev, Aeroflot's deputy commercial director.

"By doing so, Aeroflot will be able to attract and retain more customers and significantly increase its share of the market. Also, we will be able to form partnerships with other airlines to provide a wider range of benefits for our passengers and expanded business opportunities for Aeroflot."

Mike McNamara, programme director for customer management at Unisys, says: "Aeroflot is entering a new age of customer awareness, service and marketing.

"The Unisys CLS will provide Aeroflot with a customer-centric business model and enable them to identify, acknowledge and focus on their most valuable customers. CLS will also give Aeroflot the capability and flexibility to challenge its competitors and enable the airline to co-operate with business partners and alliance carriers on a global scale."

The Russian contract came soon after a similar $1m order from Alitalia, the Italian airline. It was keen to have the new technology in order to keep pace with the group's expansion.

"We are continuing to grow and expect to fly 1.5m more people this year than in 1997," says Massimo Polimeni, vice-president of marketing services for Alitalia.

"We must support our increased commercial activity with a solution that takes us beyond our current frequent flyer programme, one that lets us individualise promotions and show our customers that we really understand their needs and interests. Unisys CLS will help us centralise our focus on the customer, provide more personalised service, and further distinguish us from competitors."

The system features static file maintenance for easy system update and monitoring. Airline agents work through a simple graphical user interface that can be accessed 24 hours a day without any scheduled downtime for database updates and system administration.

The CLS also serves as a centralised database of customer information, which eliminates having valuable information in disparate databases.

Steve Arsenault, programme director of Loyalty Systems at Unisys, says many customers have turned to the group's system solution because of problems with their existing technology.

"We are getting a lot of business from customers who have put together their own systems – which have been basically thrown together – and are then having real technical problems when they want to expand and do more sophisticated things."

He cites the example of one European airline which realised it was rewarding customers with air miles but was unable to analyse any of the data about those travellers. "Without being able to get the full benefits from their loyalty programme, it was basically giving away the miles for free," says Mr Arsenault.

Flexibility

He also emphasises the flexibility of the Unisys CLS, which is an open system, allowing airlines to integrate it with any other systems they might be using.

In addition, it gives airlines that are new to the loyalty market, such as Aeroflot, a wealth of choice about the type of scheme they want to employ. "Aeroflot does not know what sort of programme it wants yet, but the CLS gives it this tremendous amount of flexibility in deciding what they want to do," says Mr Arsenault.

Unisys has licensed its software to a number of airlines, which have chosen to do the installation themselves. However, the computer group prefers to undertake the entire project itself so that the customer can realise the full benefits of the system.

"We like to establish a close working relationship with the customer so that we get a real understanding of their business, what they want from the CLS and what we can do for them," says Mr Arsenault.

"Up-front consultancy is important because quite often customers' ideas of what they want will change as the project progresses. It can save the customer a lot of money."

Unisys has introduced its own loyalty scheme for its CLS customers, with the aim of producing even more improvements to the technology.

A CLS User Group has been set up and meets twice a year. Each airline representative is empowered to bring $80,000 to the meeting, which Unisys will match. The proceeds are used to fund development work on the CLS, the fruits of which are passed on to the User Group participants.

UNISYS AT WORK

AIR MILES

The skies are no longer the limit

With some 4m customers, Air Miles runs one of the largest loyalty programmes in the world. So when the British Airways subsidiary was considering upgrading its computer system, it was looking for something which would provide it with an open platform, greater power and complete flexibility.

About 7 per cent of the UK population participates in Air Miles promotions. The scheme has expanded beyond the air travel market and awards are made on a variety of products not connected with flying. For example, customers of Scottish Hydro-Electric, the power company, will be able to accumulate Air Miles as the residential electricity market opens to competition. The company is making at least 24m Air Miles available.

In fact Air Miles has become a fully integrated multi-collection programme, which enables customers to collect miles through purchases and transactions from more than 350 sources, including credit cards, supermarkets, restaurants and service stations.

The company decided to choose the Unisys Customer Loyalty System because of its flexibility in being able to manage the group's huge scope of operations. "We have a large, diverse customer base, and Unisys CLS gives us the flexibility to respond to our customers more efficiently and effectively with highly personalised service," says Keith Mitchell, information technology director, Air Miles Travel Promotions Ltd.

"We have to be adept and flexible in dealing with all relationship management issues – whether for credit card, fuel, retailing or airline travel – to meet and exceed everyone's expectations. To achieve this goal, we need an integrated approach that addresses the whole customer experience. CLS will provide the core infrastructure around which all our communications, customer service and marketing will revolve."

Nick Hynes, travel management director at Air Miles, agrees. "With CLS, we are able to reinforce relationships with our customers on an individual basis. A major part of our business is selling leisure travel directly to our customer base, and we believe greater knowledge of our customers, the ability to communicate with them one-to-one, and our desire to offer them the best and most relevant travel offers can all be satisfied by CLS."

Air Miles awards can be combined to towards a reward. Depending on the number of miles redeemed, miles can be claimed for free air travel, hotel stays, discounted holiday packages, ferry trips, and cinema tickets.

Steve Arsenault, Unisys programme director for CLS, says: "Frequency programmes alone will not satisfy customers or maintain customer loyalty. Unisys CLS enables loyalty management organisations and airline management to provide the consistently excellent, personalised service that cultivates high-level customer loyalty."

Air Miles: about 7 per cent of the UK population participates in its promotions

UNISYS & MOBILE SERVICES

Providers get the message

Designing and implementing an efficient and effective answering machine service for busy mobile telephone users was one of the many challenges faced by Orange when it became the UK's fourth cellular operator in 1994.

Orange needed to develop a system which lived up to its reputation for service and innovation. "Our products and marketing philosophy from the outset have been inclusive," says Lester Evans, the company's engineering manager for messaging systems.

"Orange's goal is to offer a broad range of services as standard, and provide a set of attractively priced services that are easy to understand and use."

Its introduction into mobile messaging illustrates the company's overall approach to the challenge: provide robust products that are designed to appeal to the entire subscriber group, and that can be operated intuitively by even the most uninitiated user.

Market research by Orange discovered that despite a poor reputation in the past, voice messaging was a value-added service which could enhance customer retention and profitability. The Orange Answer Phone was introduced with the launch of the group's service in 1994.

The service ensures that subscribers never miss a call. If a subscriber's phone is busy, unanswered or switched off, the Orange system automatically diverts calls to the answer phone service.

Users can also take advantage of the integration of caller display into Orange phones, allowing them to manage their incoming calls and send a particular incoming call to their answer phone when they do not wish to take it.

Upgrading the Answer Phone service has led to users now being able to send or forward voice messages directly to any other Orange users without ringing their phones. They can also reply to a voice message that has been sent directly to them without having to punch in the sender's phone number.

Answer Phone also allows users to set up "mailing lists" of other Orange users to whom they regularly need to broadcast messages. To create its advanced messaging system, Orange turned to Unisys, the integrated computer group, for a flexible solution that could be customised and scaled-up to respond to market demands.

Virtual network answering

"If we have customer problems, it would be more likely that for some reason they weren't able to access the service, not because they weren't able to understand it," says Mr Evans. "Our virtual network answering machine is far and away the largest benefit our subscribers perceive in our value-added services."

Using the VoiceSource NAP platform, Orange has also enhanced its customer service centre capabilities. Subscribers can automatically access information regarding accounts and services by following the system's voice prompts.

"Having someone answer a call in person ties up expensive resources, but having a cheaper call fulfilment and dissatisfied customers isn't acceptable either," says Mr Evans. "This system helps us balance those two objectives and allows the potential to route to more specialist operators as the system can pre-screen calls by query type.

VoiceSource NAP was also the platform chosen by Unisys for the implementation of a new messaging system for EPlus Mobilfunk, the German mobile telecoms group.

The new messaging architecture was designed to provide flexible and user-friendly services for the company's customers. At the heart of the system were two VoiceSource Clearpath NX4800 transaction computers. Each of these offers a capacity of more than 500,000 mailboxes, operating together as a logical system.

Based on this architecture, the system provides answering machine, news transmission, integrated facsimile transmission, wake-up, and short message functions. Central to the success of the project was the migration of end users from the previously distributed systems to the new VoiceSource platform, ideally without affecting the operation of the E-Plus network.

Initially, Unisys adapted all the system components and application functions to the E-Plus network requirements, and following these adaptations the actual migration steps were carried out.

Within the course of this project phase, as many as 160,000 active user mailboxes were migrated in just a single step. The high performance and scalability of the NAP VoiceSource system enabled a load transfer of a previously unparalleled magnitude.

The overall design of the system allows its capacity to be dynamically extended to meet the rapidly expanding volume of subscribers to the EPlus network. Combined with a concentration of system engineering to just a few locations and convenient administration options, this enables a more simplified operational environment with considerably improved service options.

UNISYS & PUBLISHING

At the heart of the media revolution

The Hermes system has emerged as one of the most successful of the myriad solutions that are now available to the industry

The technological changes in the publishing industry have been nothing short of revolutionary in the past 10 years. In that time, the heart of the UK national newspaper industry, Fleet Street, has been torn out as new technology has transformed its economics and structure.

It has been a similar story across Europe. Old hot metal presses have given way to modern electronic and digital equipment, which require different skills and offer much more flexible ways of working. At the same time, the computerisation of the editorial and production functions has wrought significant changes to that side of the business.

The computer industry has been swift to innovate. A host of systems now exists on the market, offering publishers different solutions to their printing and editorial requirements. However, "Hermes", which has been developed by Unisys, has emerged as one of the most successful. Among a series of important contract wins, News International, the UK's biggest newspaper publisher, last year chose Hermes as the system that would produce its 10 publications, including four national newspapers.

"The complete integration and scalability of the solutions was one of the major factors in our decision to select Unisys," says Craig Mitchell, director of information technology for News International. "In addition to the system capabilities, we were looking for a supplier who would be prepared to work with us to meet our very complex requirements.

"We were impressed with the level of commitment Unisys brings to the publishing industry and their willingness to work with us to meet our needs."

Kevin Delaney, director of publishing systems at Unisys, says: "I believe that News International will be setting the standard for newsroom systems for what is considered the most advanced, fully integrated model of its kind in the world."

The contract is the biggest publishing deal ever won by Unisys. It comprises the Unisys Hermes editorial production system, Unisys WireCenter, a wire input and routing system, and Unisys DocCenter, a multimedia archive system.

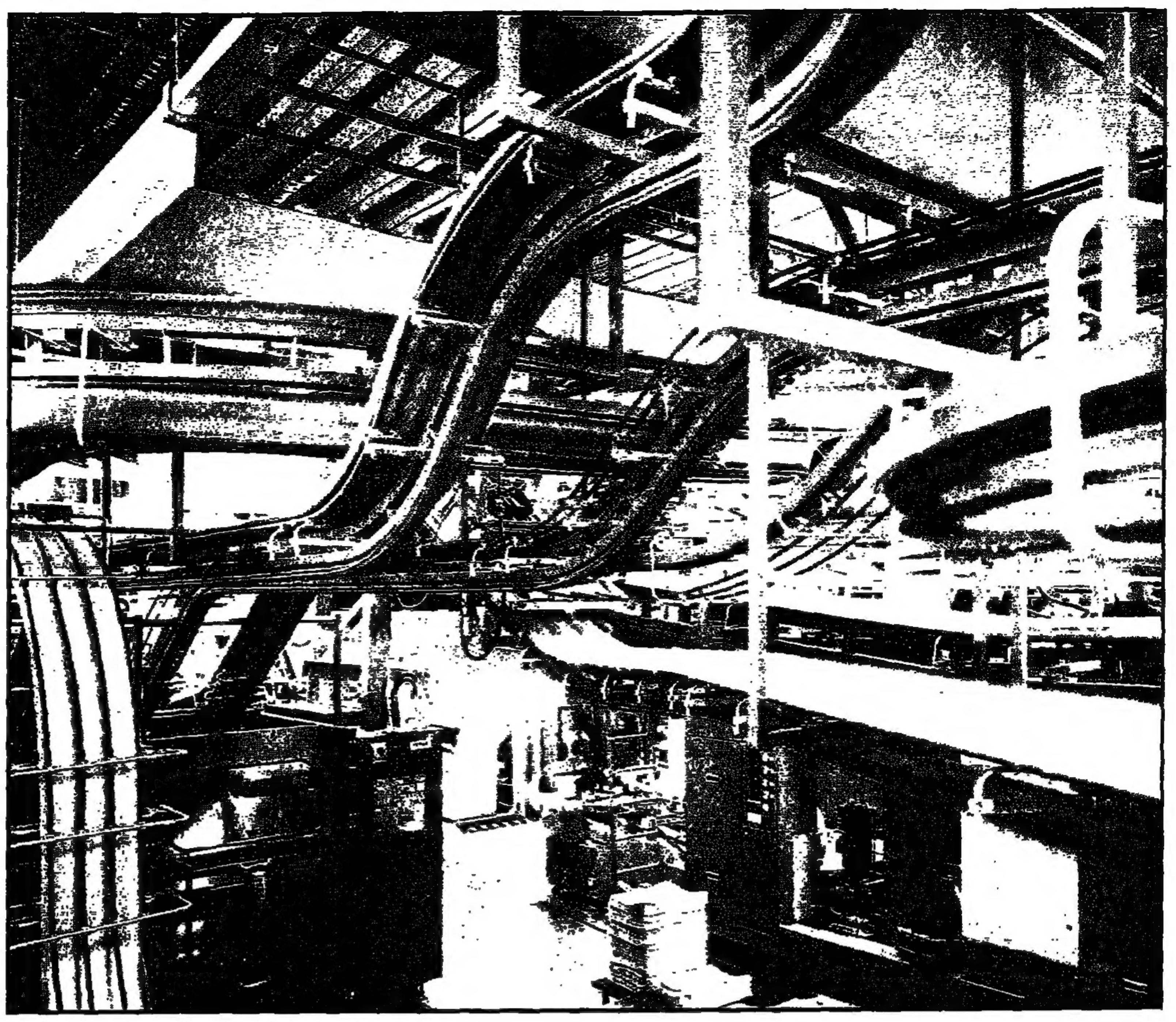
The hardware and system software platform consists of two Sun E1000 and two E5000 servers, with an Oracle database for Hermes and Basis Plus database for DocCenter.

Flexibility and scalability appear to be the key merits of Hermes. The three systems which comprise the package allow a publisher to produce many different papers with different styles within an integrated solution. Unlike many systems implemented over the past 10 years, all of the applications required to produce a newspaper are accessible through one terminal rather than using separate editorial and page assembly work stations.

Single database

Everyone works from a single database so that, for example, several people can work on the same page simultaneously. This and other features help to speed up the production process and allow editors to close pages later to cover late-breaking stories with greater effect.

The solution runs on the Sun Solaris platform and mainstream databases. They use PCs as clients with applications running in Windows 95 and NT. Hermes and WireCenter also run on both DEC Alpha and Intel servers using Windows NT and the MS-SQL server. Unisys systems and integration expertise and capabilities allow the integration of existing proprietary and off-the-shelf speciality packages with the Unisys Publishing Solution.



News International is just one of some 50 publishers around the world that have selected the Hermes solution. Earlier this year, the Barcelona-based newspapers La Vanguardia and El Mundo Deportivo elected to use Unisys for their publishing system.

La Vanguardia is one of the largest daily newspapers in Spain, selling 250,000 copies on weekdays, rising to 450,000 at weekends. The 96-page paper is produced five times a day. El Mundo Deportivo is one of Spain's top sports papers, with a daily circulation of 125.000. Both papers belong to the Godo publishing group.

The contract involves the IT group installing 300 workstations, connected to Hermes, with its integrated editorial and electronic pagination, and WireCenter's wire services and external communications management. Like the News International system, the solutions will be anchored by three Sun servers, and will also be integrated with the advertising computer system currently in use at both newspapers.

"La Vanguardia and El Mundo Deportivo decided to go with the Unisys Publishing Solutions because they are highly integrated and based on open systems and market standards which are a lot easier to support than our current proprietary system," says Jaume Francas, general manager of the newspaper's operations.

"We were looking for an industry-leading supplier to partner with. Unisys is a leading supplier in Europe, and most importantly will be able to lead us into the 21st century to furnish us continually with the most advanced solutions during the years to come."

Aine Gibbings, Unisys Publishing Solutions Program Manager for Iberia, says building a strong relationship between the two companies will be the bedrock of the project's success. "The growing success of Unisys Publishing Solutions ensures that Unisys will continue to supply advanced solutions for medium and large newspapers, allowing them to shorten their production cycles, get closer to their customers and improve the quality of their products."

Spanish success

The contract is the second Spanish success for Unisys recently. Last year, it began installing its publishing solutions at El Pais. The Madrid-based newspaper believes the acquisition gives it a cutting edge in an increasingly competitive world. "The existence of new media areas such as the internet, the enormous competitiveness and the new information demands of the next century's society are already producing profound changes in the role of the traditional editorial business and its products," says El Pais.

"With Hermes, the newspaper has acquired a tool which allows us to optimise our editing process, improving the quality of the product and of the work performed by the writing and design teams. Its functionality as a global information management system will facilitate the creation of new products and services in both conventional and digital formats."

Ms Gibbings agrees. "The success of the Hermes implementation in the highest circulation newspaper of the country confirms the high performance of the solution and its flexibility to adapt to the requirements of the written press of the 21st century: higher levels of productivity, significant improvements in the quality of the final product and a wide range of possibilities to use Hermes for new information products and services."

This was certainly the view of the editorial management at La Voix du Nord, the fifth largest daily newspaper in France, when they came to modernise their systems.

The group had a very centralised organisation, its Lille headquarters being the hub for the 300 journalists and 1,000 regional correspondents. However, this system had many disadvantages for such a large disparate operation, being too bureaucratic and unwieldy to respond quickly in such a fast-moving environment as the media. La Voix du Nord, therefore, decided to decentralise its organisation.

"The main purpose was to simplify our working tools in order to send journalists into the field," says Andre Soleau, the group's general manager. This involved the installation of a new editorial system, as well as the relocation of journalists to new remote locations.

'The production tracking application has helped us to simplify our daily tasks'

Hermes was chosen as the solution to the complex problems posed by the reorganisation. Each of the teams of journalists, located in one of the 35 La Voix du Nord remote bureaux, works independently and is responsible for designing and producing its pages.

Midi Libre publishes three southern French regional newspapers – Midi Libre, L'Independent du Midi and Centre Presse. Montpelier-based Midi Libre has a daily circulation of 170,000 and has a network of 12 remote offices to produce the paper's 18 different editions.

The other two papers are based in Perpignan and Rodez respectively and sell some 125,000 copies between them, again with many different editions. The decision to modernise its production system was therefore a significant one for such a disparate operation. "The new publishing solutions had to be open to allow integrations with existing systems, flexible enough to adapt to organisational and environmental changes and easy for our editorial teams to master," says Jean-Dominique Pretet, general manager of the Midi Libre Group.

"Last but not least, the new publishing system needed to allow us to achieve a high return on investment."

An exhaustive year-long tender process found Unisys awarded the prestigious contract. In production since October 1996, the Hermes publishing system has allowed the Midi Libre Group to rationalise its editorial workflow and speed up its production process.

System integration

"The integration of the editorial and production cycles, the way journalists can work in WYSIWYG mode, and the superior monitoring provided by the Hermes Supervisor production tracking application have helped us to simplify our daily tasks and have allowed us to extend our working deadlines," says Mr Prete. It was another substantial task for which Hermes was called upon to solve when Frankfurter Allgemeine Zeitung, the large German newspaper group, went looking for a new editorial and production system last year.

Frankfurter Allgemeine Zeitung has a daily circulation of 400,000 copies. The FAZ group, which is the seventh largest publisher in Germany, also includes Markische Allgemeine Zeitung in Potsdam (circulation 220,000) and Frankfurter Neue Presse (circulation 115,000). Other publications in the group include Blick durch die Wirtschaft, a business paper.

This was the third big deal Unisys Publishing Solutions had won in Germany. It followed the decision by Medien Systemhaus Rechenzentrum Sudwest of Stuttgart to install Hermes, and by Verlagsgruppe Handelsblatt of Düsseldorf.

It was a familiar call when Unisys received an invitation to update its editorial and production system last year from Il Messaggero, the Rome-based daily news group. With a relationship going back more than 20 years, the two knew each other well. Il Messaggero, one of Italy's oldest newspapers, has a daily circulation of 350.000. An average of 90 pages are produced daily for the 17 different editions published and distributed mainly in the central and southern regions of Italy.

The publisher had installed all the different Unisys production systems since 1976. It started with the Gtms/Linco, based on a 9480 mainframe. In 1988, the group moved up to an Ares, based on a 2200 mainframe, then four years later, Unisys installed Hermes. During all the years, however, Unisys has been compared with all the other providers in the market, but the company's solutions have always been chosen in preference to its rivals.

Then and now (top and above): newspaper technology has experienced revolutionary change in the past 10 years

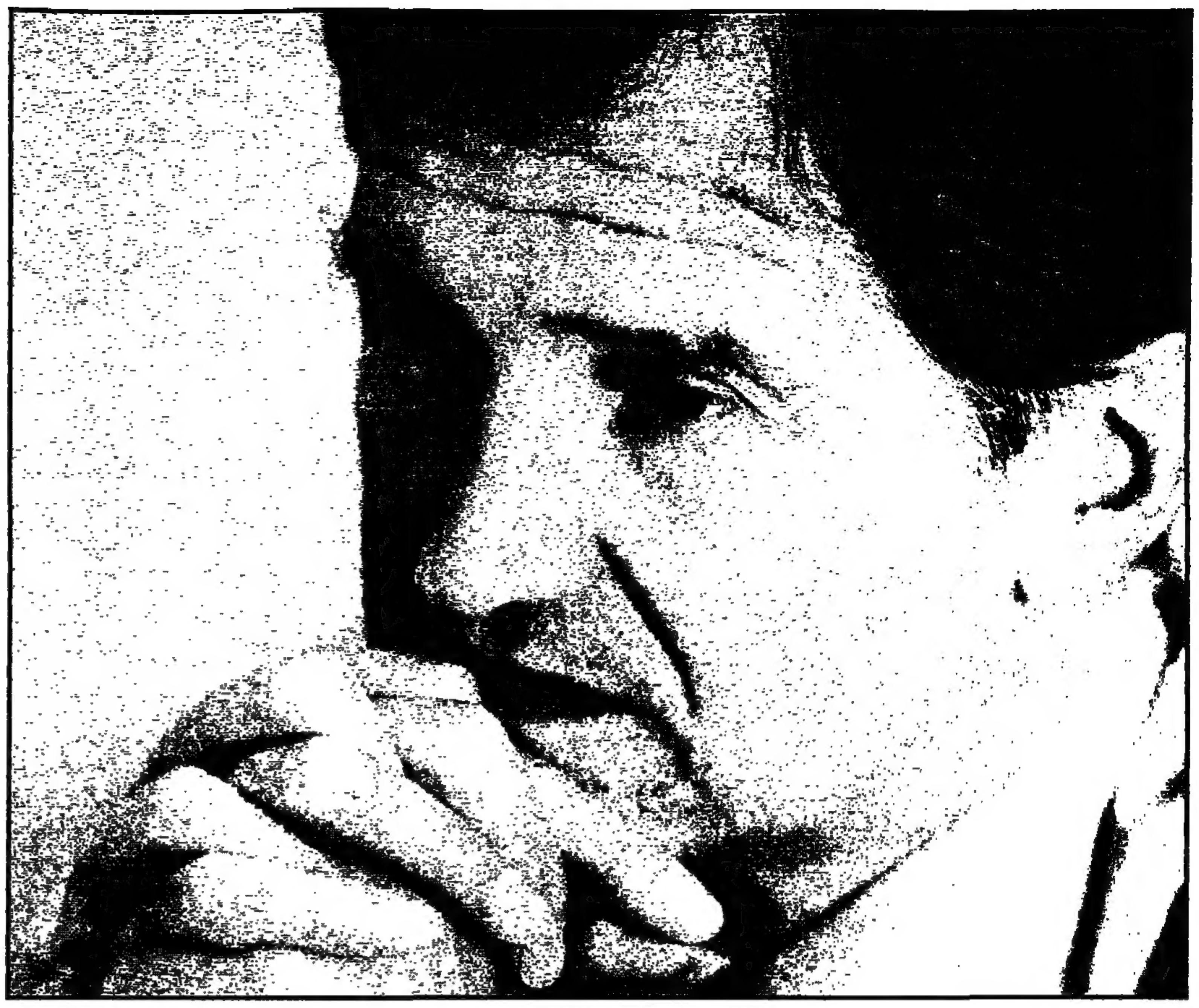
صكذا من الاجل

UNISYS

INTERVIEW: GEORGE COX OF UNISYS

Focus shifts to extending customer relationships and widening the customer base

The chairman of Unisys Ltd is witnessing dramatic changes in culture as the company moves from technology provider to solution supplier



George Cox had some pleasant surprises when he joined Unisys three years ago. His perceptions mirrored many in the information technology industry of an organisation famed for its hardware, and which also put systems together.

"I was very impressed when I arrived. Rather than just a computer company, I found an organisation which was built solely on customer relations. It was a very uncynical place, there was good technology and some very bright people."

What it lacked, however, was the ability to market these attributes. "It was obvious we were not very good at selling ourselves outside of our client base," says Mr Cox. "People knew our name but were not sure exactly what it was we did. Obviously our major clients didn't see us like that, but outside of that there was a perception that we were an unknown quantity."

A new major marketing campaign aims to change that. It will highlight the service side of the business, where the groups earns almost two-thirds of its revenues, and underline the company's involvement with the entire IT process, including the outsourcing of commodity hardware products and the focusing of Unisys development resources on high-end enterprise servers.

CV

● George Cox, 58, has had a prestigious career in the information technology industry. Since joining Unisys three years ago, he has been managing director of the UK subsidiary and chief executive for Information Services in Europe. He is at present chairman of Unisys Ltd, and also has responsibility for the European Country Managers and for all European major accounts.

Before joining Unisys, Mr Cox was chairman of P-E International, and prior to that he was managing director of Butler Cox, the international consulting and research group.

He is a visiting professor at Royal Holloway College, University of London. He is also a member of the board of the London International Financial Futures and Options Exchange, and a non-executive member of the Management Board of the UK Inland Revenue.

The author of several papers on management and on the application of information technology, Mr Cox has given talks and led seminars in 25 different countries.

'The challenge is to make the market more widely aware of what it is we have to offer'

Most importantly, it is what customers want. The growing complexity and size of IT contracts, as well as their sheer importance to an organisation's competitiveness, means potential customers are looking for a supplier to procure the hardware and software, install and integrate the system and provide support throughout and beyond the project's life.

"Companies want a complete solution to their IT systems requirements," says Mr Cox. "They don't want answers or advice on individual problems."

The challenge for Unisys has been to differentiate itself from other former hardware companies which are following a similar strategy, such as IBM and ICL. It must also compete with the big consultancy firms, such as Andersen Consulting, and the computer services groups, such as Electronic Data Systems and Sema.

Unisys has been investing heavily in recruitment and training in order to make the organisation even more customer focused. Mr Cox believes it is these relationships which will underpin the future prosperity of the business. It has also worked hard at becoming more responsive and flexible as an organisation.

"The big change in the IT market in recent years has been that customers have become more demanding, and the onus is on us to respond to that shift. It's the pressure on organisations to change that generates all our business. One only has to look at the radical changes in the financial services market to see how technology is completely changing the way people do business."

The huge investments being made by individual organisations in IT puts tremendous responsibility on the supplier. Mr Cox is proud of the fact that almost two-thirds of the group's European revenues comes from existing customers. However, the new drive to attract a wider customer base has seen the company preparing its organisation in readiness to respond to a European IT market Mr Cox describes as "buoyant".

A big recruitment drive has been under way, particularly in the major continental European centres. In France, for example, Unisys plans to appoint a senior industry figure to head its growing operations there. A new level of "client business directors" has been created that will be able to address the group's marketing challenge, as well as being technical experts.

"They'll be people who are comfortable talking at the most senior corporate level about a company's IT requirements," says Mr Cox.

Unisys plans to recruit some 70 client business directors throughout Europe. "The challenge is to make the market more widely aware of what it is we have to offer." He adds: "Did you know, for example, that half the world's cheques are processed by Unisys?"

In addition, there is a widespread recruitment campaign for general technicians and college graduates. In all, Unisys expects to add 1,000 extra staff this year to its 8,500 existing European workforce. The company will continue to focus on its chosen market segments: financial services, publishing, public sector, transport systems, law enforcement and telecoms.

There have also been internal changes at the group in order to increase efficiency and trim costs. Being a new kind of business also requires a change in the working environment. Mr Cox and his management team have turned the group's offices into "business centres", where staff work around a central administrative hub and use the facilities, be it a private office, or a team workstation, as befits their requirements. No one has their own desk.

The result has been a 30 per cent rise in staff numbers and an 18 per cent decline in office space. "And it's more convivial, efficient and empowering, says Mr Cox.

So much so, that senior management will now go through the same process. "The trappings of being a managing director, with the big plush office etcetera, belong to a bygone era," says Mr Cox, adding that the rest of the executives are "extremely keen" on the idea.

The company has struck some important agreements with other computer groups to support its operations. There is a partnership agreement with Hewlett Packard, which took over supplying personal computers after Unisys pulled out of the PC manufacturing business. Unisys is a strategic partner with Microsoft, the world's biggest software group. There is also a world-wide maintenance contract with Dell, the US computer company.

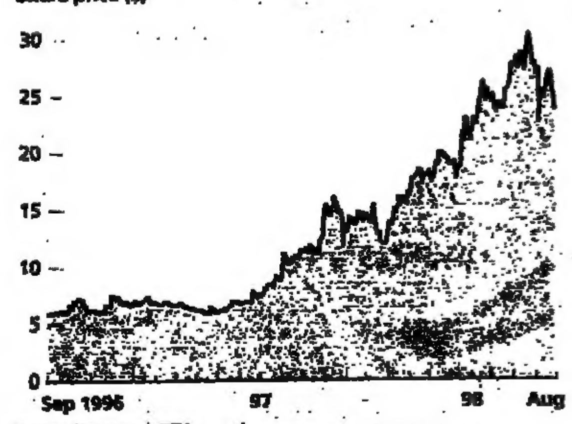
However, none of the agreements compromise the commitment of Unisys to providing the system solution that will best suit an organisation. "I thought a lack of independence might be a problem before I came here, but nothing could be further from the truth," says Mr Cox. "The reputation of Unisys to provide the computer system and solution the customer wants and needs is unsurpassed."

He points out that many of the publishing systems the company supplies, for example, are based on Sun Microsystems machines.

When he is not on executive duties, Mr Cox likes to indulge his passion for aviation, a pastime he says helps focus his mind for the challenges of the job. He is a qualified gliding instructor and will "still leap in whenever I can". However, his most recent and enjoyable trip was flying the pride of the Russian air force, the Mig 29 combat aircraft, which its makers claim is the best close quarter fighter in the world. "It was an amazing experience," says Mr Cox.

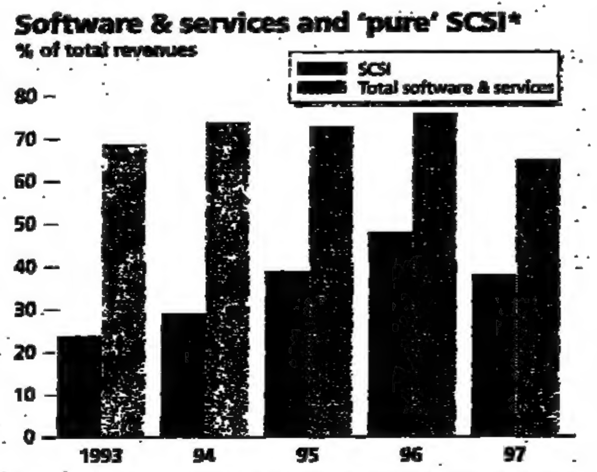
He is also undoubtedly enjoying the experience of reshaping Unisys. "It's about moving from being a provider of technology to a supplier of solutions. It's been about changing the culture of the company, but we've done it and are now moving forward."

Unisys
Share price ($)



Source: Datastream/ICV

Software & services and 'pure' SCSI*
% of total revenues



Source: Holway Report (1998) *Software and computing services industry

YANKEE GROUP

Survey finds efficiency in an economic system

A recent report by Yankee Group, the US market research company, found that Unisys mainframe environments are significantly less expensive to operate than comparable IBM mainframes running similar applications. The study, which was underwritten by Unisys, found that the Unisys ClearPath environment can support a similar number of concurrent users and concurrent applications with far fewer MIPS (81 per cent fewer) and staff (77 per cent fewer) than the IBM OS/390 CMOS environment requires.

MIPS, or millions-of-instructions-per-second, is a commonly used measurement of a computer's 'horsepower' and potential speed.

The Yankee Group study found that Unisys systems can handle comparable workloads much more efficiently than IBM systems.

"Our users have always known that Unisys mainframe-class environments were more efficient and less expensive to operate than comparable IBM environments," says Brian Hadfield, vice-president and general manager of the ClearPath business initiative at Unisys. "We are pleased that Yankee Group has been able to demonstrate the greater cost-effectiveness of Unisys ClearPath mainframe-class servers with good, hard numbers."

The Yankee Group conducted a survey of 109 IBM and 99 Unisys user companies in the US, Canada, Europe, South Africa, New Zealand and Australia. The survey was designed to compare user perceptions of the Unisys ClearPath and the IBM OS/390 CMOS operating environments in terms of their relative ease of use, user satisfaction and reliability. The survey also compared staffing levels of various key related support functions. Other issues and factors compared included the number of concurrent users, concurrent applications and business applications.

"Our survey is based on the real-world experience of the users of these systems," says Perry Harris, director, management strategies at Yankee Group. "Overall satisfaction and reliability were found to be equal for both IBM and Unisys, but the survey emphatically shows that Unisys systems work more efficiently and require less staff to operate."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